



GA SEGONYANA LOCAL MUNICIPALITY

**ANNUAL FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2018**

Ga Segonyana Local Municipality

Annual Financial Statements for the year ended 30 June 2018

General Information

Legal form of entity	South African Category B Municipality (Local Municipality) as defined by the Municipal Structures Act (Act No. 117 of 1998)	
Mayoral committee		
Mayor	Masegela N.G.	
Councillors	Name	
	Meyers T.E. (Speaker)	
	Assegaa G.C.	
	Aucamp W.A.S.	
	Bloem S.N.	
	Chweu K.H.	
	Disang M.F.	
	Dispi N.G.	
	Eiman B.A.	
	Galeboe M.P.	
	Kanjeruba K.F.	
	Leserwane E.B.	
	Leserwane O.A.	
	Madikiza Selepe K.B.	
	Makoke L.N.	
	Makwati K.R.	
	Mathibe O.D.	
	Mntuyedwa G.N.	
	Moagi L.	
	Modise E.B.	
	Moseki L.C.	
	Mpata D.T.	
	Nelson L.R.	
	Ngesi N.G.	
	Reetsang M.G.	
	Thupaemang N.G.	
	Tshetshemeserogwe I.	
Chief Financial Officer (CFO)	K. Noke	
Accounting Officer	E. Ntefang	Term ended 30 September 2017
Accounting Officer	M. Tsatsimpe	Appointed 1 October 2017
Registered office	Corner Voortrekker and School Street Kuruman	
Business address	Corner Voortrekker and School Street Kuruman	
Postal address	Private Bag X1522 Kuruman 8460	

Ga Segonyana Local Municipality

Annual Financial Statements for the year ended 30 June 2018

General Information

Bankers	FNB
Auditors	Auditor General (South Africa)
Jurisdiction	<p>The Ga-segonyana Local Municipality includes the following areas:</p> <p>Kuruman, Bankhara, Mothibistad, Magojaneng, Obama Hill, Ditshoswaneng, Mpoteng, Seoding, Mokalamosesane, Gamopedi, Ncweng, Galotolo, Pietbos, Sloja, Lokaleng, Geelboom, Sedibeng, Bathharos, Gasehubane, Garuele, Gasebolao, Maruping, Vergenoeg, Kagung, Lohathha, Seven Miles, Thamonyanche, Wrenchville, Promise Land and Thuli Madonsela.</p>
Relevant Legislation	<p>Constitution of the Republic of South Africa (Act No. 108 of 1996)</p> <p>Municipal Finance Management Act (Act 56 of 2003)</p> <p>Division of Revenue Act</p> <p>The Income Tax Act (Act No. 58 of 1962)</p> <p>Value Added Tax Act (Act No. 117 of 1998)</p> <p>Municipal Structures Act (Act No. 32 of 2000)</p> <p>Water Service Act (Act No. 108 of 1997)</p> <p>Housing Act (Act No. 107 of 1997)</p> <p>Municipal Property Rates Act (Act No. 6 of 2004)</p> <p>Electricity Act (Act No. 41 of 1987)</p> <p>Skills Development Levies Act (Act No. 9 of 1999)</p> <p>Employment Equity Act (Act No. 55 of 1998)</p> <p>Unemployment Insurance Act (Act No. 30 of 1966)</p> <p>Basic Conditions of Employment Act (Act No. 75 of 1997)</p> <p>Municipal System Amendment Act (Act No. 7 of 2011)</p> <p>Municipal Planning and Performance Management Regulations</p> <p>Municipal Supply Chain Management Regulations</p> <p>Municipal Collective Agreements</p> <p>Municipal Budget and Reporting Regulations</p> <p>MFMA Circulars and Regulations</p>

Ga Segonyana Local Municipality

Annual Financial Statements for the year ended 30 June 2018

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ACIP	Accelerated Community Infrastructure Program
ASB	Accounting Standards Board
DBSA	Development Bank of South Africa
DME	Department of Minerals and Energy Grant
DWAF	Department of Water Affairs
EPWP	Expanded Public Works
FMG	Financial Management Grant
GRAP	Generally Recognised Accounting Practice
MFMA	Municipal Finance Management Act (Act 56 of 2003)
MIG	Municipal Infrastructure Grant (Previously CMIP)
MWIG	Municipal Water Infrastructure Grant
WSIG	Water Services Infrastructure Grant
PAYE	Pay As You Earn
RHIG	Rural Housing Infrastructure Grant
SARS	South African Revenue Services
SDL	Skills Development Levies
UIF	Unemployment Insurance Fund

Ga Segonyana Local Municipality

Annual Financial Statements for the year ended 30 June 2018

Accounting Officer's Responsibilities and Approval

The Accounting Officer is required by the Municipal Finance Management Act (Act 56 of 2003), to maintain adequate accounting records and is responsible for the content and integrity of the annual financial statements and related financial information included in this report. It is the responsibility of the Accounting Officer to ensure that the annual financial statements fairly present the state of affairs of the municipality as at the end of the financial year and the results of its operations and cash flows for the year then ended. The external auditors are engaged to express an independent opinion on the annual financial statements and were given unrestricted access to all financial records and related data.

The annual financial statements have been prepared in accordance with Standards of Generally Recognised Accounting Practice (GRAP) including any interpretations, guidelines and directives issued by the Accounting Standards Board.

The annual financial statements are based upon appropriate accounting policies consistently applied and supported by reasonable and prudent judgements and estimates.

The Accounting Officer acknowledges that he is ultimately responsible for the system of internal financial control established by the municipality and places considerable importance on maintaining a strong control environment. To enable the Accounting Officer to meet these responsibilities, the Accounting Officer sets standards for internal control aimed at reducing the risk of error or deficit in a cost effective manner. The standards include the proper delegation of responsibilities within a clearly defined framework, effective accounting procedures and adequate segregation of duties to ensure an acceptable level of risk. These controls are monitored throughout the municipality and all employees are required to maintain the highest ethical standards in ensuring the municipality's business is conducted in a manner that in all reasonable circumstances is above reproach. The focus of risk management in the municipality is on identifying, assessing, managing and monitoring all known forms of risk across the municipality. While operating risk cannot be fully eliminated, the municipality endeavours to minimise it by ensuring that appropriate infrastructure, controls, systems and ethical behaviour are applied and managed within predetermined procedures and constraints.

The Accounting Officer is of the opinion, based on the information and explanations given by management, that the system of internal control provides reasonable assurance that the financial records may be relied on for the preparation of the annual financial statements. However, any system of internal financial control can provide only reasonable, and not absolute assurance against material misstatement or deficit.

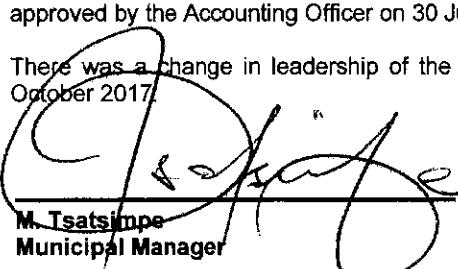
The Accounting Officer has reviewed the municipality's cash flow forecast for the year to 30 June 2019 and, in the light of this review and the current financial position, he is satisfied that the municipality has adequate resources to continue in operational existence for the foreseeable future.

Although the Accounting Officer is primarily responsible for the financial affairs of the municipality, the annual financial statements are supported by the municipality's external auditors.

The external auditors are responsible for independently reviewing and reporting on the municipality's annual financial statements. The annual financial statements have been examined by the municipality's external auditors and their report is separately presented.

The annual financial statements set out on pages 7 to 81, which have been prepared on the going concern basis, were approved by the Accounting Officer on 30 June 2018.

There was a change in leadership of the municipality during the financial year as the Municipal Manager was appointed in October 2017.


M. Tsatsimpe
Municipal Manager

Ga Segonyana Local Municipality

Annual Financial Statements for the year ended 30 June 2018

Audit Committee Report

We are pleased to present our report for the financial year ended 30 June 2018.

Audit committee members and attendance

The audit committee consists of the members listed hereunder and should meet at least 4 times per annum as per its approved terms of reference. During the current year 8 meetings were held.

Name of member	Number of meetings attended	Notes
Ms L. Dhlamini (Chairperson)	7	3 year term appointed as Chairperson
Mr S. Simelane	4	3 year term appointed as member
Mr A. Ngobeni	2	3 year term appointed as member
Mr F. Buys	4	3 year term appointed as member
Mr R. Tshimomola	6	3 year term appointed as member

Audit committee responsibility

The audit committee reports that it has complied with its responsibilities arising from section 166(2)(a) of the MFMA.

The audit committee also reports that it has adopted appropriate formal terms of reference as its audit committee charter, has regulated its affairs in compliance with this charter and has discharged all its responsibilities as contained therein.

The committee has performed the following key responsibilities:

- Adopted the audit and risk management charter and proposed approved to council;
- Reconfirm the appropriateness of the internal audit charter and methodology;
- Recommended the risk management strategy and policy to council, due to the slow implementation thereof alternative mechanisms were followed by the internal audit manager and a risk register was considered and recommended for approval to council;
- Approved the internal audit plan for the financial year and monitored to the implementation of the plan;
- Evaluated the findings raised by internal and external audit and made recommendations on addressing those matters;
- Performed a review of financial information submitted to the committee and commented specifically on concerns raised based on year-to-date information and accuracy of projections;
- Requested management to report on pending litigation, possible contingent liabilities and significant risks;
- Requested management to address the perceived lack of discipline and called specific officials to account for the progress on the audit action plan;
- Liaised with the Auditor-General on matters relating to communication with those charged with governance.

The effectiveness of internal control

The system of controls should be designed to provide cost-effective assurance that assets are safeguarded, liabilities and working capital are efficiently managed and compliance with appropriate laws and regulations achieved.

The following issues are highlighted by the Audit and Performance Committee as points of concern:

- Insufficient preventative control measures and ineffective monitoring of controls.
- Non adherence to policies and procedures.
- Repeat internal audit findings (performance management and MFMA Compliance audit).
- Repeat external audit findings
- No consequence management and ineffective oversight structures

Internal audit

The Audit Committee is satisfied that the internal audit function is operating effectively and that it has addressed the risks pertinent to the municipality and its audits.

Auditor-General of South Africa

The Audit Committee has met with the Auditor-General of South Africa to ensure that there are no unresolved issues.

Chairperson of the Audit Committee

Ga Segonyana Local Municipality

Annual Financial Statements for the year ended 30 June 2018

Audit Committee Report

Date: _____

Ga Segonyana Local Municipality

Annual Financial Statements for the year ended 30 June 2018

Statement of Financial Position as at 30 June 2018

		2018	2017
		Note(s)	Restated* R
Assets			
Current Assets			
Inventories	3	53,804,637	55,468,013
Receivables from non-exchange transactions	4	19,738,879	21,639,101
VAT	5	17,189,868	15,309,553
Receivables from exchange transactions	6	46,119,454	20,113,789
Cash and cash equivalents	7	11,688,188	990,123
		148,541,026	113,520,579
Non-Current Assets			
Investment property	8	6,756,100	6,756,100
Property, plant and equipment	9	1,256,171,559	1,234,780,436
Intangible assets	10	350,553	573,105
Heritage assets	11	1,655,642	1,655,642
		1,264,933,854	1,243,765,283
Total Assets			1,413,474,880
			1,357,285,862
Liabilities			
Current Liabilities			
Other financial liabilities	12	7,451,010	6,666,473
Finance lease obligation	13	4,773,650	1,597,114
Payables from exchange transactions	14	125,667,955	121,946,728
Consumer deposits	15	5,334,319	4,202,439
Employee benefit obligations	16	1,618,925	1,399,725
Unspent conditional grants and receipts	17	1,699,569	18,492,566
		146,545,428	154,305,045
Non-Current Liabilities			
Other financial liabilities	12	13,158,864	14,667,776
Finance lease obligation	13	7,442,049	2,819,011
Employee benefit obligations	16	25,352,432	23,424,176
Provisions	18	12,891,497	4,870,377
		58,844,842	45,781,340
Total Liabilities			205,390,270
			200,086,385
Net Assets			1,208,084,610
			1,157,199,477
Reserves			
Revaluation reserve	19	14,835,415	14,835,415
Accumulated surplus		1,193,249,195	1,142,364,062
TOTAL NET ASSETS			1,208,084,610
			1,157,199,477

* See Note 52

Ga Segonyana Local Municipality

Annual Financial Statements for the year ended 30 June 2018

Statement of Financial Performance

		2018	2017
		Note(s)	Restated* R
REVENUE			
Revenue from exchange transactions			
Sale of stands		864,010	8,347,818
Service charges	21	140,660,584	122,671,589
Rental of facilities	22	1,688,622	1,926,041
Interest on outstanding receivables		5,616,813	5,901,682
Licences and permits		5,757,645	5,050,505
Other revenue		2,561,479	14,962,597
Interest on investments	24	2,155,587	176,099
Total revenue from exchange transactions		159,304,740	159,036,331
Revenue from non-exchange transactions			
Taxation revenue			
Property rates	25	38,408,384	36,636,136
Transfer revenue			
Government grants and subsidies realised	26	232,798,246	226,228,557
Public contributions and donations	27	2,789,054	699,022
Fines, penalties and forfeits		1,120,100	9,739,846
Total revenue from non-exchange transactions		275,115,784	273,303,561
Total revenue	20	434,420,524	432,339,892
EXPENDITURE			
Employee related costs	28	(119,647,195)	(103,870,213)
Remuneration of councillors	29	(9,361,617)	(7,815,297)
Depreciation and amortisation	30	(53,492,011)	(55,514,544)
Impairment loss	31	(3,688,386)	(16,541,727)
Finance costs	32	(22,977,435)	(2,763,397)
Debtors impairment - Gain/(loss)	33	20,144,431	(19,147,662)
Bad debts written-off	34	(8,701,574)	-
Bulk purchases	36	(99,087,945)	(96,152,230)
Contracted services	37	(11,441,002)	(8,421,950)
General expenses	38	(72,287,821)	(89,887,833)
Total expenditure		(380,540,555)	(400,114,853)
Operating surplus		53,879,969	32,225,039
Loss on disposal of assets		(709,270)	(920,923)
Actuarial gains	16	526,317	1,720,891
		(182,953)	799,968
SURPLUS FOR THE YEAR		53,697,016	33,025,007

* See Note 52

Ga Segonyana Local Municipality

Annual Financial Statements for the year ended 30 June 2018

Statement of Changes in Net Assets

	Revaluation reserve R	Accumulated surplus R	Total net assets R
Opening balance as previously reported	20,487,531	1,113,202,087	1,133,689,618
Adjustments			
Prior year adjustments		- (3,863,032)	(3,863,032)
Balance at 01 July 2016 as restated*	20,487,531	1,109,339,055	1,129,826,586
Changes in net assets			
Surplus for 12 months ended 30 June		33,025,007	33,025,007
Other changes	349,884	-	349,884
Derecognition of revaluation on transfer of land	(6,002,000)	-	(6,002,000)
Total changes	(5,652,116)	33,025,007	27,372,891
Opening balance as previously reported	14,835,415	1,092,202,114	1,107,037,529
Adjustments			
Prior year adjustments		- 47,350,065	47,350,065
Restated* Balance at 01 July 2017 as restated*	14,835,415	1,139,552,179	1,154,387,594
Changes in net assets			
Surplus for the year ended 30 June		53,697,016	53,697,016
Total changes	- 53,697,016		53,697,016
Balance at 30 June 2018	14,835,415	1,193,249,195	1,208,084,610

Note(s)

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* See Note 52

Ga Segonyana Local Municipality

Annual Financial Statements for the year ended 30 June 2018

Cash Flow Statement

	Note(s)	2018 R	2017 Restated* R
CASH FLOWS FROM OPERATING ACTIVITIES			
Receipts			
Sale of goods and services		184,494,315	160,411,551
Grants		219,914,402	235,809,907
Interest on investments		2,155,587	176,099
		<hr/>	<hr/>
		406,564,304	396,397,557
Payments			
Employee costs		(126,620,077)	(111,685,507)
Suppliers		(182,799,750)	(176,433,946)
Finance costs		(14,956,314)	(2,763,397)
		<hr/>	<hr/>
		(324,376,141)	(290,882,850)
Net cash flows from operating activities	39	82,188,163	105,514,707
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchase of property, plant and equipment	9	(79,150,053)	(109,697,591)
Proceeds from sale of property, plant and equipment	9	666,592	6,213,773
Purchase of intangible assets	10	(134,561)	(400,000)
Proceeds from sale of intangible assets	10	52,727	138,526
		<hr/>	<hr/>
Net cash flows from investing activities		(78,565,295)	(103,745,292)
CASH FLOWS FROM FINANCING ACTIVITIES			
Movement in other financial liabilities		(724,375)	(2,527,619)
Finance lease payments		7,799,572	1,215,960
Net cash flows from financing activities		7,075,197	(1,311,659)
Net increase/(decrease) in cash and cash equivalents		10,698,065	457,756
Cash and cash equivalents at the beginning of the year		990,123	532,367
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR	7	11,688,188	990,123

* See Note 52

Ga Segonyana Local Municipality

Annual Financial Statements for the year ended 30 June 2018

Statement of Comparison of Budget and Actual Amounts

Budget on Actual Basis

	Approved budget	Adjustments	Final Budget	Actual amounts on comparable basis	Difference between final budget and actual	Reference
	R	R	R	R	R	
STATEMENT OF FINANCIAL PERFORMANCE						
REVENUE						
Revenue from exchange transactions						
Sale of stands	10,000,000	(3,000,000)	7,000,000	864,010	(6,135,990)	1
Service charges	130,254,952	(3,975,308)	126,279,644	140,660,584	14,380,940	2
Rental of facilities	2,205,000	(1,085,000)	1,120,000	1,688,622	568,622	
Interest on outstanding receivables	6,200,004	-	6,200,004	5,616,813	(583,191)	
Licences and permits	4,261,100	293,000	4,554,100	5,757,645	1,203,545	3
Other revenue	3,124,797	(595,601)	2,529,196	2,561,479	32,283	
Interest on investments	1,100,000	800,000	1,900,000	2,155,587	255,587	
Total revenue from exchange transactions	157,145,853	(7,562,909)	149,582,944	159,304,740	9,721,796	
Revenue from non-exchange transactions						
Property rates	39,074,688	-	39,074,688	38,408,384	(666,304)	
Government grants and subsidies realised	228,757,000	(36)	228,756,964	232,798,246	4,041,282	4
Public contributions and donations	-	-	-	2,789,054	2,789,054	5
Fines, Penalties and Forfeits	1,284,885	7,199	1,292,084	1,120,100	(171,984)	
Total revenue from non-exchange transactions	269,116,573	7,163	269,123,736	275,115,784	5,992,048	
Total revenue	426,262,426	(7,555,746)	418,706,680	434,420,524	15,713,844	
EXPENDITURE						
Employee related costs	(111,675,161)	1,854,084	(109,821,077)	(119,647,195)	(9,826,118)	6
Remuneration of councillors	(8,457,660)	(728,900)	(9,186,560)	(9,361,617)	(175,057)	
Depreciation and amortisation	(36,201,480)	-	(36,201,480)	(53,492,011)	(17,290,531)	7
Impairment loss	-	-	-	(3,688,386)	(3,688,386)	8
Finance costs	(2,813,257)	(3,694,999)	(6,508,256)	(22,977,435)	(16,469,179)	9
Debt Impairment	-	(61,368)	(61,368)	20,144,431	20,205,799	10
Collection costs	(536,952)	18,606	(518,346)	(8,701,574)	(8,183,228)	
Repairs and maintenance	(7,238,000)	(4,642,128)	(11,880,128)	(14,152,378)	(2,272,250)	11
Bulk purchases	(74,786,868)	(26,573,349)	(101,360,217)	(99,087,945)	2,272,272	12
Contracted services	(37,440,000)	(14,597,184)	(52,037,184)	(11,441,002)	40,596,182	13
General expenses	(51,349,200)	15,825,548	(35,523,652)	(58,135,443)	(22,611,791)	14
Total expenditure	(330,498,578)	(32,599,690)	(363,098,268)	(380,540,555)	(17,442,287)	
Operating surplus	95,763,848	(40,155,436)	55,608,412	53,879,969	759,352,667	
Gain on disposal of assets	-	-	-	(709,270)	(709,270)	
Actuarial gains/losses	-	-	-	526,317	526,317	
	-	-	-	(182,953)	(182,953)	
SURPLUS FOR THE YEAR	95,763,848	(40,155,436)	55,608,412	53,697,016	(1,911,396)	

Ga Segonyana Local Municipality

Annual Financial Statements for the year ended 30 June 2018

Statement of Comparison of Budget and Actual Amounts

Budget on Accrual Basis

	Approved budget	Adjustments	Final Budget	Actual amounts on comparable basis	Difference between final budget and actual	Reference
	R	R	R	R	R	R
Statement of Financial Position						
Assets						
Current Assets						
Inventories	18,039,723	15,008,490	33,048,213	53,804,637	20,756,424	15
Receivables from non-exchange transactions	29,459,373	12,865,893	42,325,266	19,738,879	(22,586,387)	16
Receivables from exchange transactions	40,917,531	(11,813,475)	29,104,056	46,119,454	17,015,398	17
VAT	-	-	-	17,189,868	17,189,868	18
Cash and cash equivalents	-	2,606,206	2,606,206	11,688,188	9,081,982	19
	88,416,627	18,667,114	107,083,741	148,541,026	41,457,285	
Non-Current Assets						
Investment property	6,961,100	-	6,961,100	6,756,100	(205,000)	
Property, plant and equipment	1,141,205,939	129,141,265	1,270,347,204	1,256,171,559	(14,175,645)	20
Intangible assets	538,962	34,143	573,105	350,553	(222,552)	
Heritage assets	1,650,000	5,642	1,655,642	1,655,642	-	
Loan receivables	49,388	(49,388)	-	-	-	
	1,150,405,389	129,131,662	1,279,537,051	1,264,933,854	(14,603,197)	
Total Assets	1,238,822,016	147,798,776	1,386,620,792	1,413,474,880	26,854,088	
Liabilities						
Current Liabilities						
Other financial liabilities	5,947,531	-	5,947,531	7,451,010	1,503,479	21
Finance lease obligation	-	-	-	4,773,650	4,773,650	22
Payables from exchange transactions	18,156,756	65,000,000	83,156,756	125,667,949	42,511,193	23
Consumer deposits	3,781,051	-	3,781,051	5,334,319	1,553,268	
Employee benefit obligations	-	-	-	1,618,925	1,618,925	24
Unspent conditional grants and receipts	-	-	-	1,699,569	1,699,569	25
	27,885,338	65,000,000	92,885,338	146,545,422	53,660,084	
Non-Current Liabilities						
Other financial liabilities	20,452,746	(20,452,746)	-	13,158,864	13,158,864	26
Finance lease obligation	-	-	-	7,442,049	7,442,049	27
Employee benefit obligations	-	-	-	25,352,432	25,352,432	28
Provisions	530,000	(530,000)	-	12,891,497	12,891,497	29
	20,982,746	(20,982,746)	-	58,844,842	58,844,842	
Total Liabilities	48,868,084	44,017,254	92,885,338	205,390,264	112,504,926	
Net Assets	1,189,953,932	103,781,522	1,293,735,454	1,208,084,616	(85,650,838)	

Ga Segonyana Local Municipality

Annual Financial Statements for the year ended 30 June 2018

Statement of Comparison of Budget and Actual Amounts

Budget on Accrual Basis

	Approved budget R	Adjustments R	Final Budget R	Actual amounts on comparable basis R	Difference between final budget and actual R	Reference
Net Assets						
Net Assets Attributable to Owners of Controlling Entity						
Reserves						
Revaluation reserve	-	-	-	14,835,415	14,835,415	30
Accumulated surplus	1,188,798,707	48,046,624	1,236,845,331	1,193,249,204	(43,596,127)	31
Total Net Assets	1,188,798,707	48,046,624	1,236,845,331	1,208,084,619	(28,760,712)	

Ga Segonyana Local Municipality

Annual Financial Statements for the year ended 30 June 2018

Statement of Comparison of Budget and Actual Amounts

Budget on Accrual Basis

	Approved budget	Adjustments	Final Budget	Actual amounts on comparable basis	Difference between final budget and actual	Reference
	R	R	R	R	R	

Sale of stands

1) The decrease was due to a decrease in sale of stands as compared to prior year.

Service charges

2). Service charges increased by R14million due to increase in tariffs and also a slight increase in consumers.

Licences and permits

3) Licences and permits increased due to an increase in customers as well as charges.

Government grants and subsidies realised

4) Government grants were above budget due to increase in equitable share as well as realisation of income for conditions met for most grants.

Public contributions and donations

5) There was an increase in donations from mines for repairs and maintenance of road infrastructure.

Employee related costs

6) Employee costs increased due to increase in salaries and wages of 7% as well as overtime payments due to high call out to repair water infrastructure

Depreciation and amortisation

7) Depreciation increased due to increase in assets in the current year as well as gains of assets that were added after the physical verification.

Impairment

8) Impairment increased as it was not budgeted for.

Finance costs

9) Finance costs increased due to increased in finance costs of Landfill rehabilitation costs which increased by R8million as well as new Finance leases

Debt impairment

10) There was a substantial change in debt impairment due to restatement of prior year provision which resulted in a decrease in provision.

Repairs and maintenance

11) Repairs and maintenance increased slightly as compared to budget due to aging infrastructure which is constantly under maintenance.

Bulk purchases

12) Bulk purchases increased due to increase in price for both water and electricity.

Contracted services

Ga Segonyana Local Municipality

Annual Financial Statements for the year ended 30 June 2018

Statement of Comparison of Budget and Actual Amounts

Budget on Accrual Basis

	Approved budget	Adjustments	Final Budget	Actual amounts on comparable basis	Difference between final budget and actual	Reference
	R	R	R	R	R	

13) Contracted services changed substantially due to reclassifications which were moved from contracted services to other expenses.

General expenses.

14) General expenses increased due to increases in costs from suppliers.

Inventory

15) Inventory increased due to reclassification of land under property, plant and equipment to inventory.

Receivables from non-exchange transactions

16) Receivables from non-exchange transactions reduced due to write-off of traffic fines balances.

Receivables from exchange transactions

17) Receivables from exchange transactions increased due to impairment reversal after restatement of debtors impairment.

VAT

18) VAT changed substantially as it was not budgeted for and also there was restatement of error after correcting the prior year misstatements. There was also a 1% change from 14% to 15%.

Cash and cash equivalents

19) The cash and cash equivalents of the municipality increased due to improvement in cash flow management

Property, plant and equipmentent

20) Property, plant and equipment increased due to additional assets bought or constructed in the current year as projects are completed as well as asset gains brought into the books after the physical verification exercise.

21) This balance is composed of loans from DBSA as well as loan owing to National treasury for Equitable share withheld..

22) Finance lease obligation increased due to additional lease from Africent.

Ga Segonyana Local Municipality

Annual Financial Statements for the year ended 30 June 2018

Accounting Policies

1. Presentation of Annual Financial Statements

The Annual Financial Statements have been prepared in accordance with the Standards of Generally Recognised Accounting Practice (GRAP), issued by the Accounting Standards Board in accordance with Section 122(3) of the Municipal Finance Management Act (Act 56 of 2003).

These annual financial statements have been prepared on an accrual basis of accounting and are in accordance with historical cost convention as the basis of measurement, unless specified otherwise.

Assets, liabilities, revenues and expenses were not offset, except where offsetting is either required or permitted by a Standard of GRAP.

A summary of the significant accounting policies, which have been consistently applied in the preparation of these Annual Financial Statements, are disclosed below.

These accounting policies are consistent with the previous period.

1.1 Presentation currency

These Annual Financial Statements are presented in South African Rand, which is the functional currency of the municipality. All figures are rounded off to the nearest Rand.

1.2 Going concern assumption

These annual financial statements have been prepared based on the expectation that the municipality will continue to operate as a going concern for at least the next 12 months.

1.3 Significant judgements and sources of estimation uncertainty

In preparing the Annual Financial Statements, management is required to make estimates and assumptions that affect the amounts represented in the Annual Financial Statements and related disclosures. Use of available information and the application of judgement is inherent in the formation of estimates. Actual results in the future could differ from these estimates which may be material to the Annual Financial Statements. Significant judgements include:

1.3.1 Trade receivables and allowance for doubtful debts

The municipality assesses its trade receivables for impairment at the end of each reporting period. In determining whether an impairment loss should be recorded in surplus or deficit, the municipality makes judgements as to whether there is observable data indicating a measurable decrease in the estimated future cash flows from a financial asset.

The impairment for trade receivables is calculated on a portfolio basis, based on historical loss ratios, adjusted for national and industry-specific economic conditions and other indicators present at the reporting date that correlate with defaults on the portfolio. On debtors, an impairment loss is recognised in surplus and deficit when there is objective evidence that the debtors are impaired. The impairment is measured as the difference between the debtors carrying amount and the present value of estimated future cash flows discounted at the effective interest rate, computed at initial recognition.

1.3.2 Allowance for slow moving, damaged and obsolete stock

An allowance for stock to write stock down to the lower of cost or net realisable value. Management have made estimates of the selling price and direct cost to sell on certain inventory items. The write down is included in the operation surplus note.

1.3.3 Fair value estimation

The fair value of financial instruments that are not traded in an active market (for example, over-the counter derivatives) is determined by using valuation techniques. The municipality uses a variety of methods and makes assumptions that are based on market conditions existing at the end of each reporting period.

The carrying value less impairment provision of trade receivables and payables are assumed to approximate their fair values

Ga Segonyana Local Municipality

Annual Financial Statements for the year ended 30 June 2018

Accounting Policies

1.3 Significant judgements and sources of estimation uncertainty (continued)

1.3.4 Impairment testing

The recoverable amounts of cash-generating units and individual assets have been determined based on the higher of value-in-use calculations and fair values less costs to sell. These calculations require the use of estimates and assumptions. It is reasonably possible that the assumptions may change which may then impact our estimations and may then require a material adjustment to the carrying value of tangible assets.

The municipality reviews and tests the carrying value of assets when events or changes in circumstances suggest that the carrying amount may not be recoverable. Assets are grouped at the lowest level for which identifiable cash flows are largely independent of cash flows of other assets and liabilities. If there are indications that impairment may have occurred, estimates are prepared of expected future cash flows for each group of assets. Expected future cash flows used to determine the value in use of tangible assets are inherently uncertain and could materially change over time. They are significantly affected by a number of factors including production estimates, supply demand and interest.

1.3.5 Provisions

Provisions were raised and management determined an estimate based on the information available. Additional disclosure of these estimates of provisions are included in the notes to the Annual Financial Statements.

Provisions are recognised when the municipality has a present or constructive obligation as a result of past events, it is probable that an outflow of resources embodying economic benefits or service potential will be required to settle the obligation and a reliable estimate can be made of the obligation.

The best estimate of the expenditure required to settle the present obligation is the amount that the municipality would rationally pay to settle the obligation at the reporting date or to transfer it to a third party at that time and are determined by the judgement of the municipality, supplemented by experience of similar transactions and, in some, cases, reports from independent experts. The evidence considered includes any additional evidence provided by events after the reporting date. Uncertainties surrounding the amount to be recognised as a provision are dealt with by various means according to the circumstances. Where the provision being measured involves a large population of items the obligation is estimated by weighting all possible outcomes by their associated probabilities.

Future events that may affect the amount required to settle an obligation are reflected in the amount of a provision where there is sufficient objective evidence that they will occur. Gains from the expected disposal of assets are not taken into account in measuring a provision. Provisions are not recognised for future operating losses. The present obligation under an onerous contract is recognised and measured as a provision. An onerous contract is a contract in which the unavoidable costs of meeting the obligations under the contract exceed the economic benefits expected to be received under it. The unavoidable costs under a contract reflect the least net cost of exiting from the contract, which is the lower of the cost of fulfilling it and any compensation or penalties arising from failure to fulfil it. This unavoidable cost resulting from the contract is the amount of the provision to be recognised.

Provisions are reviewed at reporting date and the amount of a provision is the present value of the expenditure expected to be required to settle the obligation. When the effect of discounting is material, provisions are determined by discounting the expected future cash flows that reflect current market assessments of the time value of money. The impact of the periodic unwinding of the discount is recognised in the Statement of Financial Performance as a finance cost as it occurs.

1.3.6 Useful lives of assets

The municipality's management determines the estimated useful lives and related depreciation charges for assets. This estimate is based on public sector industry norm. Management will increase the depreciation charge where useful lives are less than previously estimated useful lives.

The estimation of residual values of assets is based on management's judgement as to whether the assets will be sold or used at the end of their useful lives, and in what condition they will be at that time.

Ga Segonyana Local Municipality

Annual Financial Statements for the year ended 30 June 2018

Accounting Policies

1.3 Significant judgements and sources of estimation uncertainty (continued)

1.3.7 Post retirement benefits

The present value of the post retirement obligation depends on a number of factors that are determined on an actuarial basis using a number of assumptions. The assumptions used in determining the net cost (income) include the discount rate. Any changes in these assumptions will impact on the carrying amount of post retirement obligations.

The municipality determines the appropriate discount rate at the end of each year. This is the interest rate that should be used to determine the present value of estimated future cash outflows expected to be required to settle the pension obligations. In determining the appropriate discount rate, the municipality considers the interest rates of high-quality corporate bonds that are denominated in the currency in which the benefits will be paid, and that have terms to maturity approximating the terms of the related pension liability.

Other key assumptions for pension obligations are based on current market conditions. Additional information is disclosed in the Notes to the Annual Financial Statements.

The municipality obtains actuarial valuations of its Defined Benefit Plan Liabilities. The defined benefit obligations of the municipality that were identified are Post-retirement Health Benefit Obligations and Long-service Awards. The estimated liabilities are recorded in accordance with the requirements of GRAP 25. Details of the liabilities and the key assumptions made by the actuaries in estimating the liabilities are provided in the relevant Notes to the Annual Financial Statements.

1.3.8 Effective interest rate

Where interest rates are not specified in the transactions handled by the municipality, particularly with respect to finance leases the municipality used the prime interest rate to discount future cash flows.

1.3.9 Allowance for doubtful debts

On debtors, an impairment loss is recognised in surplus and deficit when there is objective evidence that the debtors are impaired.

The impairment for trade receivables and loans receivables is calculated based on the grading of individual debtors according to their payment history. An accumulation of arrear balances is an indicator of debtor delinquency. Such debtors are provided for as they are considered to be impaired due to uncertainty surrounding the recoverability of the outstanding amounts. Debtors are graded on the following basis:

Grade A

Trade receivables are not impaired for customers with accounts that are not in arrears.

Grade B

Customers with a payment history but with balances outstanding in excess of 90 days, the balance in excess of 90 days is impaired in full.

Grade C

Customers without payment history are considered to be delinquent and the outstanding balances are impaired in full.

Government debtors

Government debtors are not impaired as the government generally has a history of meeting its obligations.

1.4 Investment property

1.4.1 Initial Recognition

Investment property is property (land or buildings) held to earn rentals or for capital appreciation or both, rather than for:

- use in the production or supply of goods or services, or
- administrative purposes, or
- sale in the ordinary course of operations.

Ga Segonyana Local Municipality

Annual Financial Statements for the year ended 30 June 2018

Accounting Policies

1.4 Investment property (continued)

Owner-occupied property is property held for use in the production or supply of goods or services, or for administrative purposes.

Investment property is recognised as an asset when, it is probable that the future economic benefits or service potential that are associated with the investment property will flow to the municipality, and the cost or fair value of the investment property can be measured reliably.

Investment property is initially recognised at cost. Transaction costs are included in the initial measurement.

Where investment property is acquired through a non-exchange transaction, its cost is its fair value as at the date of acquisition.

1.4.2 Subsequent Measurement

Subsequent to initial measurement investment property is measured at fair value in line with the asset management policy of the municipality on the municipal property rates Act cycle.

The fair value of investment property reflects market conditions at the reporting date.

A gain or loss arising from a change in fair value is included in net surplus or deficit for the period in which it arises.

The nature OR type of properties classified as held for strategic purposes are as follows:

1.4.3 Derecognition

Investment property is derecognised on disposal or when the investment property is permanently withdrawn from use and no future economic benefits or service potential are expected from its disposal.

Gains or losses arising from the retirement or disposal of investment property is the difference between the net disposal proceeds and the carrying amount of the asset and is recognised in surplus or deficit in the period of retirement or disposal.

Compensation from third parties for investment property that was impaired, lost or given up is recognised in surplus or deficit when the compensation becomes receivable.

1.5 Property, plant and equipment

Property, plant and equipment are tangible non-current assets (including infrastructure assets) that are held for use in the production or supply of goods or services, rental to others, or for administrative purposes, and are expected to be used during more than one period.

The cost of an item of property, plant and equipment is recognised as an asset when:

- it is probable that future economic benefits or service potential associated with the item will flow to the municipality; and
- the cost of the item can be measured reliably.

Property, plant and equipment is initially measured at cost.

The cost of an item of property, plant and equipment is the purchase price and other costs attributable to bring the asset to the location and condition necessary for it to be capable of operating in the manner intended by management. Trade discounts and rebates are deducted in arriving at the cost.

Where an asset is acquired through a non-exchange transaction, its cost is its fair value as at date of acquisition.

Where an item of property, plant and equipment is acquired in exchange for a non-monetary asset or monetary assets, or a combination of monetary and non-monetary assets, the asset acquired is initially measured at fair value (the cost). If the acquired item's fair value was not determinable, its deemed cost is the carrying amount of the asset(s) given up.

When significant components of an item of property, plant and equipment have different useful lives, they are accounted for as separate items (major components) of property, plant and equipment.

Costs include costs incurred initially to acquire or construct an item of property, plant and equipment and costs incurred subsequently to add to, replace part of, or service it. If a replacement cost is recognised in the carrying amount of an item of property, plant and equipment, the carrying amount of the replaced part is derecognised.

Ga Segonyana Local Municipality

Annual Financial Statements for the year ended 30 June 2018

Accounting Policies

1.5 Property, plant and equipment (continued)

The initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located is also included in the cost of property, plant and equipment, where the entity is obligated to incur such expenditure, and where the obligation arises as a result of acquiring the asset or using it for purposes other than the production of inventories.

Recognition of costs in the carrying amount of an item of property, plant and equipment ceases when the item is in the location and condition necessary for it to be capable of operating in the manner intended by management.

Major inspection costs which are a condition of continuing use of an item of property, plant and equipment and which meet the recognition criteria above are included as a replacement in the cost of the item of property, plant and equipment. Any remaining inspection costs from the previous inspection are derecognised.

Property, plant and equipment is carried at cost less accumulated depreciation and any impairment losses except for Investment properties and buildings which are carried at revalued amount being the fair value at the date of revaluation.

The useful lives of items of property, plant and equipment have been assessed as follows:

Item	Depreciation method	Average useful life
Land		Infinity
Furniture and fixtures	Straight line	3-15 years
Infrastructure		
- Sewer pump station	Straight line	15-60 years
- Solid waste disposal	Straight line	3-9 years
- Electricity network	Straight line	3-20 years
- LV network	Straight line	10-50 years
- Distribution network	Straight line	2- 30 years
- Bridges	Straight line	30-80 years
- Bulk supply	Straight line	50-100 years
- MV network	Straight line	15-60 years
- Road structures	Straight line	5-55 years
- Airport structures	Straight line	20-60 years
- Collection and reticulation network	Straight line	50 years
- Borehole	Straight line	3-100 years
- Distribution reticulation network	Straight line	5-60 years
- Storage	Straight line	10-15 years
- Stormwater	Straight line	10-60 years
- Road traffic management	Straight line	10-40 years
- Waste water treatment	Straight line	15-60 years
- Water network	Straight line	20 years
- Water pipes	Straight line	20 years
- Water pump	Straight line	5-100 years
- Water storage	Straight line	3-20 years
Community Assets		
- Buildings	Straight line	100 years
Other property, plant and equipment		
- Furniture and equipment	Straight line	5-10 years
- Motor vehicles	Straight line	5-15 years
- Office equipment	Straight line	3-10 years
- Plant equipment	Straight line	4-15 years
- Computer equipment	Straight line	1-5 years
Landfill site	Straight line	17 years

The residual value, and the useful life and depreciation method of each asset are reviewed at the end of each reporting date. If the expectations differ from previous estimates, the change is accounted for as a change in accounting estimate.

Reviewing the useful life, residual value and depreciation method of an asset on an annual basis does not require the municipality to amend the previous estimate unless expectations differ from the previous estimate.

Each part of an item of property, plant and equipment with a cost that is significant in relation to the total cost of the item is depreciated separately.

Ga Segonyana Local Municipality

Annual Financial Statements for the year ended 30 June 2018

Accounting Policies

1.5 Property, plant and equipment (continued)

The depreciation charge for each period is recognised in surplus or deficit.

Items of property, plant and equipment are derecognised when the asset is disposed of or when there are no further economic benefits or service potential expected from the use of the asset.

The gain or loss arising from the derecognition of an item of property, plant and equipment is included in surplus or deficit when the item is derecognised. The gain or loss arising from the derecognition of an item of property, plant and equipment is determined as the difference between the net disposal proceeds, if any, and the carrying amount of the item.

1.6 Site restoration and dismantling cost

The municipality has an obligation to dismantle, remove and restore items of property, plant and equipment. Such obligations are referred to as 'decommissioning, restoration and similar liabilities'. The cost of an item of property, plant and equipment includes the initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located, the obligation for which a municipality incurs either when the item is acquired or as a consequence of having used the item during a particular period for purposes other than to produce inventories during that period.

If the related asset is measured using the cost model:

- (a) subject to (b), changes in the liability are added to, or deducted from, the cost of the related asset in the current period;
- (b) if a decrease in the liability exceeds the carrying amount of the asset, the excess is recognised immediately in surplus or deficit; and
- (c) if the adjustment results in an addition to the cost of an asset, the municipality considers whether this is an indication that the new carrying amount of the asset may not be fully recoverable. If it is such an indication, the asset is tested for impairment by estimating its recoverable amount or recoverable service amount, and any impairment loss is recognised in accordance with the accounting policy on impairment of cash-generating assets and/or impairment of non-cash-generating assets.

If the related asset is measured using the revaluation model:

- (a) changes in the liability alter the revaluation surplus or deficit previously recognised on that asset, so that:
 - a decrease in the liability (subject to (b)) is credited to revaluation surplus in net assets, except that it is recognised in surplus or deficit to the extent that it reverses a revaluation deficit on the asset that was previously recognised in surplus or deficit
 - an increase in the liability is recognised in surplus or deficit, except that it is debited to the revaluation surplus to the extent of any credit balance existing in the revaluation surplus in respect of that asset.
- (b) in the event that a decrease in the liability exceeds the carrying amount that would have been recognised had the asset been carried under the cost model, the excess is recognised immediately in surplus or deficit; and
- (c) a change in the liability is an indication that the asset may have to be revalued in order to ensure that the carrying amount does not differ materially from that which would be determined using fair value at the end of the reporting period. Any such revaluation is taken into account in determining the amounts to be taken to surplus or deficit or net assets under (a). If a revaluation is necessary, all assets of that class are revalued.

1.7 Intangible assets

An asset is identifiable if it either:

- is separable, i.e. is capable of being separated or divided from an entity and sold, transferred, licensed, rented or exchanged, either individually or together with a related contract, identifiable assets or liability, regardless of whether the entity intends to do so; or
- arises from binding arrangements (including rights from contracts), regardless of whether those rights are transferable or separable from the municipality or from other rights and obligations.

A binding arrangement describes an arrangement that confers similar rights and obligations on the parties to it as if it were in the form of a contract.

An intangible asset is recognised when:

- it is probable that the expected future economic benefits or service potential that are attributable to the asset will flow to the municipality; and
- the cost or fair value of the asset can be measured reliably.

Ga Segonyana Local Municipality

Annual Financial Statements for the year ended 30 June 2018

Accounting Policies

1.7 Intangible assets (continued)

The municipality assesses the probability of expected future economic benefits or service potential using reasonable and supportable assumptions that represent management's best estimate of the set of economic conditions that will exist over the useful life of the asset.

Item	Amortisation method	Average useful life
Computer software	Straight line	3 to 5 years
Intangible assets are derecognised:		
• on disposal; or		
• when no future economic benefits or service potential are expected from its use or disposal.		

The gain or loss arising from the derecognition of an intangible assets is included in surplus or deficit when the asset is derecognised (unless the Standard of GRAP on leases requires otherwise on a sale and leaseback).

1.8 Heritage assets

Assets are resources controlled by an municipality as a result of past events and from which future economic benefits or service potential are expected to flow to the municipality.

Carrying amount is the amount at which an asset is recognised after deducting accumulated impairment losses.

Class of heritage assets means a grouping of heritage assets of a similar nature or function in a municipality's operations that is shown as a single item for the purpose of disclosure in the Annual Financial Statements.

Cost is the amount of cash or cash equivalents paid or the fair value of the other consideration given to acquire an asset at the time of its acquisition or construction or, where applicable, the amount attributed to that asset when initially recognised in accordance with the specific requirements of other Standards of GRAP.

Heritage assets are assets that have a cultural, environmental, historical, natural, scientific, technological or artistic significance and are held indefinitely for the benefit of present and future generations.

1.8.1 Recognition

The municipality recognises a heritage asset as an asset if it is probable that future economic benefits or service potential associated with the asset will flow to the municipality, and the cost or fair value of the asset can be measured reliably.

1.8.2 Initial measurement

Heritage assets are measured at cost.

Where a heritage asset is acquired through a non-exchange transaction, its cost is measured at its fair value as at the date of acquisition.

1.8.3 Subsequent measurement

After recognition as an asset, a class of heritage assets is carried at its cost.

1.8.4 Impairment

The municipality assess its heritage assets at each reporting date to determine whether there is an indication of impairment. If any such indication exists, the municipality estimates the recoverable amount or the recoverable service amount of the heritage asset.

1.9 Financial instruments

A financial instrument is any contract that gives rise to a financial asset of the entity and a financial liability or a residual interest of another entity.

Ga Segonyana Local Municipality

Annual Financial Statements for the year ended 30 June 2018

Accounting Policies

1.9 Financial instruments (continued)

Credit risk is the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation.

Currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates.

Derecognition is the removal of a previously recognised financial asset or financial liability from the municipality's statement of financial position.

A derivative is a financial instrument or other contract with all three of the following characteristics:

- Its value changes in response to the change in a specified interest rate, financial instrument price, commodity price, foreign exchange rate, index of prices or rates, credit rating or credit index, or other variable, provided in the case of a non-financial variable that the variable is not specific to a party to the contract (sometimes called the 'underlying').
- It requires no initial net investment or an initial net investment that is smaller than would be required for other types of contracts that would be expected to have a similar response to changes in market factors.
- It is settled at a future date.

A financial asset is:

- cash;
- a residual interest of another entity; or
- a contractual right to:
 - receive cash or another financial asset from another entity; or
 - exchange financial assets or financial liabilities with another entity under conditions that are potentially favourable to the entity.

A financial liability is any liability that is a contractual obligation to:

- deliver cash or another financial asset to another entity; or
- exchange financial assets or financial liabilities under conditions that are potentially unfavourable to the entity.

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates.

Liquidity risk is the risk encountered by the entity in the event of difficulty in meeting obligations associated with financial liabilities that are settled by delivering cash or another financial asset.

Loans payable are financial liabilities, other than short-term payables on normal credit terms.

1.9.1 Classification

The municipality has the following types of financial assets (classes and category) as reflected on the face of the statement of financial position or in the notes thereto:

Class	Category
Receivables from exchange transactions	Financial asset measured at amortised cost
Trade and other receivables	Financial asset measured at amortised cost
VAT receivables	Financial asset measured at amortised cost
Cash and cash equivalents	Financial asset measured at fair value

The municipality has the following types of financial liabilities (classes and category) as reflected on the face of the statement of financial position or in the notes thereto:

Class	Category
Payables from exchange transactions	Financial liability measured at amortised cost
Other financial liabilities	Financial liability measured at amortised cost
Consumer deposits	Financial liability measured at amortised cost
Finance lease obligation	Financial liability measured at amortised cost

Ga Segonyana Local Municipality

Annual Financial Statements for the year ended 30 June 2018

Accounting Policies

1.9 Financial instruments (continued)

1.9.2 Initial recognition

The municipality recognises a financial asset or a financial liability in its Statement of Financial Position when the municipality becomes a party to the contractual provisions of the instrument.

1.9.3 Initial measurement of financial assets and financial liabilities

The municipality measures a financial asset and financial liability initially at its fair value plus transaction costs that are directly attributable to the acquisition or issue of the financial asset or financial liability.

The municipality measures a financial asset and financial liability initially at its fair value.

1.9.4 Subsequent measurement of financial assets and financial liabilities

The municipality measures all financial assets and financial liabilities after initial recognition using the following categories:

- Financial instruments at fair value.
- Financial instruments at amortised cost.

All financial assets measured at amortised cost, or cost, are subject to an impairment review.

1.9.5 Fair value measurement considerations

The best evidence of fair value is quoted prices in an active market. If the market for a financial instrument is not active, the entity establishes fair value by using a valuation technique. The objective of using a valuation technique is to establish what the transaction price would have been on the measurement date in an arm's length exchange motivated by normal operating considerations. Valuation techniques include using recent arm's length market transactions between knowledgeable, willing parties, if available, reference to the current fair value of another instrument that is substantially the same, discounted cash flow analysis and option pricing models. If there is a valuation technique commonly used by market participants to price the instrument and that technique has been demonstrated to provide reliable estimates of prices obtained in actual market transactions, the municipality uses that technique. The chosen valuation technique makes maximum use of market inputs and relies as little as possible on municipality-specific inputs. It incorporates all factors that market participants would consider in setting a price and is consistent with accepted economic methodologies for pricing financial instruments. Periodically, the municipality calibrates the valuation technique and tests it for validity using prices from any observable current market transactions in the same instrument (i.e. without modification or repackaging) or based on any available observable market data.

The fair value of a financial liability with a demand feature (e.g. a demand deposit) is not less than the amount payable on demand, discounted from the first date that the amount could be required to be paid.

1.9.6 Reclassification

The entity does not reclassify a financial instrument while it is issued or held unless it is:

- combined instrument that is required to be measured at fair value; or
- an investment in a residual interest that meets the requirements for reclassification.

Where the entity cannot reliably measure the fair value of an embedded derivative that has been separated from a host contract that is a financial instrument at a subsequent reporting date, it measures the combined instrument at fair value. This requires a reclassification of the instrument from amortised cost or cost to fair value.

If fair value can no longer be measured reliably for an investment in a residual interest measured at fair value, the entity reclassifies the investment from fair value to cost. The carrying amount at the date that fair value is no longer available becomes the cost.

If a reliable measure becomes available for an investment in a residual interest for which a measure was previously not available, and the instrument would have been required to be measured at fair value, the Municipality reclassifies the instrument from cost to fair value.

Ga Segonyana Local Municipality

Annual Financial Statements for the year ended 30 June 2018

Accounting Policies

1.9 Financial instruments (continued)

1.9.7 Gains and losses

A gain or loss arising from a change in the fair value of a financial asset or financial liability measured at fair value is recognised in surplus or deficit.

For financial assets and financial liabilities measured at amortised cost or cost, a gain or loss is recognised in surplus or deficit when the financial asset or financial liability is derecognised or impaired, or through the amortisation process.

1.9.8 Impairment and uncollectability of financial assets

The Municipality assess at the end of each reporting period whether there is any objective evidence that a financial asset or group of financial assets is impaired.

If there is objective evidence that an impairment loss has been incurred on an investment in a residual interest that is not measured at fair value because its fair value cannot be measured reliably, the amount of the impairment loss is measured as the difference between the carrying amount of the financial asset and the present value of estimated future cash flows discounted at the current market rate of return for a similar financial asset. Such impairment losses are not reversed.

1.9.9 Derecognition

1.9.9.1 Financial assets

The municipality derecognises a financial asset only when:

- the contractual rights to the cash flows from the financial asset expire, are settled or waived;
- the municipality transfers to another party substantially all of the risks and rewards of ownership of the financial asset.

On derecognition of a financial asset in its entirety, the difference between the carrying amount and the sum of the consideration received is recognised in surplus or deficit.

1.9.9.2 Financial liabilities

The municipality removes a financial liability (or a part of a financial liability) from its statement of financial position when it is extinguished — i.e. when the obligation specified in the contract is discharged, cancelled, expires or waived.

The difference between the carrying amount of a financial liability and the consideration paid is recognised in surplus or deficit.

1.9.10 Presentation

Interest relating to a financial instrument or a component that is a financial liability is recognised as revenue or expense in surplus or deficit.

Losses and gains relating to a financial instrument or a component that is a financial liability is recognised as revenue or expense in surplus or deficit.

A financial asset and a financial liability are only offset and the net amount presented in the statement of financial position when the entity currently has a legally enforceable right to set off the recognised amounts and intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously.

Fair value hierarchy

The table below analyses assets and liabilities carried at fair value. The different levels are defined as follows:

Level 1: Quoted unadjusted prices in active markets for identical assets or liabilities that the company can access at measurement date

Level 2: Inputs other than quoted prices included in level 1 that are observable for the asset or liability either directly or indirectly.

Level 3: Unobservable inputs for the asset or liability.

1.9.11 Cash and Cash Equivalents

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1.9 Financial instruments (continued)

Cash and cash equivalents comprise cash on hand, demand deposits, and other short term highly liquid investments that are readily convertible to a known amount of cash and are subject to an insignificant risk of changes in value. These are initially and subsequently recorded at fair value.

1.10 Tax

VAT

The municipality pays Value Added Tax (VAT) to South African Revenue Service on a payment basis in accordance with section 15(2)(a) of the Value-Added Tax Act (Act No 89 of 1991), however the municipality accounts for VAT on an accrual basis.

1.11 Leases

A lease is classified as a finance lease if it transfers substantially all the risks and rewards incidental to ownership. A lease is classified as an operating lease if it does not transfer substantially all the risks and rewards incidental to ownership.

When a lease includes both land and buildings elements, the municipality assesses the classification of each element separately.

1.11.1 Finance leases - lessee

Initial recognition

Finance leases are recognised as assets and liabilities in the Statement of Financial Position at amounts equal to the fair value of the leased property or, if lower, the present value of the minimum lease payments. The corresponding liability to the lessor is included in the Statement of Financial Position as a finance lease obligation.

The discount rate used in calculating the present value of the minimum lease payments is the interest rate implicit in the lease.

Subsequent measurement

Minimum lease payments are apportioned between the finance charge and reduction of the outstanding liability. The finance charge is allocated to each period during the lease term so as to produce a constant periodic rate on the remaining balance of the liability.

Any contingent rents are expensed in the period in which they are incurred.

1.12 Inventories

1.12.1 Initial recognition

Inventories are initially measured at cost except where inventories are acquired through a non-exchange transaction, then their costs are their fair value as at the date of acquisition.

1.12.2 Subsequent measurement

Subsequently inventories are measured at the lower of cost and net realisable value.

Inventories are measured at the lower of cost and current replacement cost where they are held for:

- distribution at no charge or for a nominal charge; or
- consumption in the production process of goods to be distributed at no charge or for a nominal charge.

Net realisable value is the estimated selling price in the ordinary course of operations less the estimated costs of completion and the estimated costs necessary to make the sale, exchange or distribution.

Current replacement cost is the cost the municipality incurs to acquire the asset on the reporting date.

The cost of inventories comprises of all costs of purchase, costs of conversion and other costs incurred in bringing the inventories to their present location and condition.

The cost of inventories is assigned using the weighted average cost formula. The same cost formula is used for all inventories having a similar nature and use to the municipality.

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1.12 Inventories (continued)

1.12.3 Derecognition

When inventories are sold, the carrying amounts of those inventories are recognised as an expense in the period in which the related revenue is recognised. If there is no related revenue, the expenses are recognised when the goods are distributed, or related services are rendered. The amount of any write-down of inventories to net realisable value or current replacement cost and all losses of inventories are recognised as an expense in the period the write-down or loss occurs. The amount of any reversal of any write-down of inventories, arising from an increase in net realisable value or current replacement cost, are recognised as a reduction in the amount of inventories recognised as an expense in the period in which the reversal occurs.

1.13 Impairment of cash-generating assets

Cash-generating assets are assets used with the objective of generating a commercial return. Commercial return means that positive cash flows are expected to be significantly higher than the cost of the asset.

Impairment is a loss in the future economic benefits or service potential of an asset, over and above the systematic recognition of the loss of the asset's future economic benefits or service potential through depreciation (amortisation).

Carrying amount is the amount at which an asset is recognised in the statement of financial position after deducting any accumulated depreciation and accumulated impairment losses thereon.

A cash-generating unit is the smallest identifiable group of assets used with the objective of generating a commercial return that generates cash inflows from continuing use that are largely independent of the cash inflows from other assets or groups of assets.

Costs of disposal are incremental costs directly attributable to the disposal of an asset, excluding finance costs and income tax expense.

Depreciation (Amortisation) is the systematic allocation of the depreciable amount of an asset over its useful life.

Fair value less costs to sell is the amount obtainable from the sale of an asset in an arm's length transaction between knowledgeable, willing parties, less the costs of disposal.

Recoverable amount of an asset or a cash-generating unit is the higher its fair value less costs to sell and its value in use.

Useful life is either:

- the period of time over which an asset is expected to be used by the municipality; or
- the number of production or similar units expected to be obtained from the asset by the municipality.

Judgements made by management in applying the criteria to designate assets as cash-generating assets or non-cash-generating assets, are as follows:

[Specify judgements made]

1.13.1 Identification

When the carrying amount of a cash-generating asset exceeds its recoverable amount, it is impaired.

The municipality assesses at each reporting date whether there is any indication that a cash-generating asset may be impaired. If any such indication exists, the municipality estimates the recoverable amount of the asset.

Irrespective of whether there is any indication of impairment, the municipality also tests a cash-generating intangible asset with an indefinite useful life or a cash-generating intangible asset not yet available for use for impairment annually by comparing its carrying amount with its recoverable amount. This impairment test is performed at the same time every year. If an intangible asset was initially recognised during the current reporting period, that intangible asset was tested for impairment before the end of the current reporting period.

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Accounting Policies

1.13 Impairment of cash-generating assets (continued)

1.13.2 Value in use

Value in use of a cash-generating asset is the present value of the estimated future cash flows expected to be derived from the continuing use of an asset and from its disposal at the end of its useful life.

When estimating the value in use of an asset, the municipality estimates the future cash inflows and outflows to be derived from continuing use of the asset and from its ultimate disposal and the municipality applies the appropriate discount rate to those future cash flows.

1.13.3 Basis for estimates of future cash flows

In measuring value in use the municipality:

- base cash flow projections on reasonable and supportable assumptions that represent management's best estimate of the range of economic conditions that will exist over the remaining useful life of the asset. Greater weight is given to external evidence;
- base cash flow projections on the most recent approved financial budgets/forecasts, but excludes any estimated future cash inflows or outflows expected to arise from future restructuring's or from improving or enhancing the asset's performance. Projections based on these budgets/forecasts covers a maximum period of five years, unless a longer period can be justified; and
- estimate cash flow projections beyond the period covered by the most recent budgets/forecasts by extrapolating the projections based on the budgets/forecasts using a steady or declining growth rate for subsequent years, unless an increasing rate can be justified. This growth rate does not exceed the long-term average growth rate for the products, industries, or country or countries in which the entity operates, or for the market in which the asset is used, unless a higher rate can be justified.

1.13.4 Composition of estimates of future cash flows

Estimates of future cash flows include:

- projections of cash inflows from the continuing use of the asset;
- projections of cash outflows that are necessarily incurred to generate the cash inflows from continuing use of the asset (including cash outflows to prepare the asset for use) and can be directly attributed, or allocated on a reasonable and consistent basis, to the asset; and
- net cash flows, if any, to be received (or paid) for the disposal of the asset at the end of its useful life.

Estimates of future cash flows exclude:

- cash inflows or outflows from financing activities; and
- income tax receipts or payments.

The estimate of net cash flows to be received (or paid) for the disposal of an asset at the end of its useful life is the amount that the municipality expects to obtain from the disposal of the asset in an arm's length transaction between knowledgeable, willing parties, after deducting the estimated costs of disposal.

1.14 Impairment of non-cash-generating assets

Cash-generating assets are assets used with the objective of generating a commercial return. Commercial return means that positive cash flows are expected to be significantly higher than the cost of the asset.

Non-cash-generating assets are assets other than cash-generating assets.

Impairment is a loss in the future economic benefits or service potential of an asset, over and above the systematic recognition of the loss of the asset's future economic benefits or service potential through depreciation (amortisation).

Carrying amount is the amount at which an asset is recognised in the statement of financial position after deducting any accumulated depreciation and accumulated impairment losses thereon.

A cash-generating unit is the smallest identifiable group of assets managed with the objective of generating a commercial return that generates cash inflows from continuing use that are largely independent of the cash inflows from other assets or groups of assets.

Costs of disposal are incremental costs directly attributable to the disposal of an asset, excluding finance costs and income tax expense.

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Accounting Policies

1.14 Impairment of non-cash-generating assets (continued)

Depreciation (Amortisation) is the systematic allocation of the depreciable amount of an asset over its useful life.

Fair value less costs to sell is the amount obtainable from the sale of an asset in an arm's length transaction between knowledgeable, willing parties, less the costs of disposal.

Recoverable service amount is the higher of a non-cash-generating asset's fair value less costs to sell and its value in use.

Useful life is either:

- the period of time over which an asset is expected to be used by the municipality; or
- the number of production or similar units expected to be obtained from the asset by the municipality.

Judgements made by management in applying the criteria to designate assets as non-cash-generating assets or cash-generating assets, are as follows:

[Specify judgements made]

1.14.1 Identification

When the carrying amount of a non-cash-generating asset exceeds its recoverable service amount, it is impaired.

The municipality assesses at each reporting date whether there is any indication that a non-cash-generating asset may be impaired. If any such indication exists, the municipality estimates the recoverable service amount of the asset.

Irrespective of whether there is any indication of impairment, the entity also tests a non-cash-generating intangible asset with an indefinite useful life or a non-cash-generating intangible asset not yet available for use for impairment annually by comparing its carrying amount with its recoverable service amount. This impairment test is performed at the same time every year. If an intangible asset was initially recognised during the current reporting period, that intangible asset was tested for impairment before the end of the current reporting period.

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Accounting Policies

1.14 Impairment of non-cash-generating assets (continued)

1.14.2 Value in use

Value in use of non-cash-generating assets is the present value of the non-cash-generating assets remaining service potential.

The present value of the remaining service potential of a non-cash-generating assets is determined using the following approach:

1.14.3 Depreciated replacement cost approach

The present value of the remaining service potential of a non-cash-generating asset is determined as the depreciated replacement cost of the asset. The replacement cost of an asset is the cost to replace the asset's gross service potential. This cost is depreciated to reflect the asset in its used condition. An asset may be replaced either through reproduction (replication) of the existing asset or through replacement of its gross service potential. The depreciated replacement cost is measured as the current reproduction or replacement cost of the asset, whichever is lower, less accumulated depreciation calculated on the basis of such cost, to reflect the already consumed or expired service potential of the asset.

The replacement cost and reproduction cost of an asset is determined on an "optimised" basis. The rationale is that the municipality would not replace or reproduce the asset with a like asset if the asset to be replaced or reproduced is an overdesigned or overcapacity asset. Overdesigned assets contain features which are unnecessary for the goods or services the asset provides. Overcapacity assets are assets that have a greater capacity than is necessary to meet the demand for goods or services the asset provides. The determination of the replacement cost or reproduction cost of an asset on an optimised basis thus reflects the service potential required of the asset.

1.14.4 Restoration cost approach

Restoration cost is the cost of restoring the service potential of an asset to its pre-impaired level. The present value of the remaining service potential of the asset is determined by subtracting the estimated restoration cost of the asset from the current cost of replacing the remaining service potential of the asset before impairment. The latter cost is determined as the depreciated reproduction or replacement cost of the asset, whichever is lower.

1.14.5 Service units approach

The present value of the remaining service potential of the asset is determined by reducing the current cost of the remaining service potential of the asset before impairment, to conform to the reduced number of service units expected from the asset in its impaired state. The current cost of replacing the remaining service potential of the asset before impairment is determined as the depreciated reproduction or replacement cost of the asset before impairment, whichever is lower.

1.14.6 Recognition and measurement

If the recoverable service amount of a non-cash-generating asset is less than its carrying amount, the carrying amount of the asset is reduced to its recoverable service amount. This reduction is an impairment loss.

An impairment loss is recognised immediately in surplus or deficit.

Any impairment loss of a revalued non-cash-generating asset is treated as a revaluation decrease.

When the amount estimated for an impairment loss is greater than the carrying amount of the non-cash-generating asset to which it relates, the municipality recognises a liability only to the extent that is a requirement in the Standards of GRAP.

After the recognition of an impairment loss, the depreciation (amortisation) charge for the non-cash-generating asset is adjusted in future periods to allocate the non-cash-generating asset's revised carrying amount, less its residual value (if any), on a systematic basis over its remaining useful life.

1.15 Employee benefits

Employee benefits are all forms of consideration given by a municipality in exchange for service rendered by employees.

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Accounting Policies

1.15 Employee benefits (continued)

1.15.1 Short-term employee benefits

Short-term employee benefits are employee benefits (other than termination benefits) that are due to be settled within twelve months after the end of the period in which the employees render the related service.

Short-term employee benefits include items such as:

- wages, salaries and social security contributions;
- short-term compensated absences (such as paid annual leave and paid sick leave) where the compensation for the absences is due to be settled within twelve months after the end of the reporting period in which the employees render the related employee service;
- bonus, incentive and performance related payments payable within twelve months after the end of the reporting period in which the employees render the related service; and
- non-monetary benefits (for example, medical care, and free or subsidised goods or services such as housing, cars and cellphones) for current employees.

The expected cost of compensated absences is recognised as an expense as the employees render services that increase their entitlement or, in the case of non-accumulating absences, when the absence occurs. The municipality measures the expected cost of accumulating compensated absences as the additional amount that the municipality expects to pay as a result of the unused entitlement that has accumulated at the reporting date.

The municipality recognises the expected cost of bonus, incentive and performance related payments when the municipality has a present legal or constructive obligation to make such payments as a result of past events and a reliable estimate of the obligation can be made. A present obligation exists when the municipality has no realistic alternative but to make the payments.

1.15.2 Post-employment benefits: Defined contribution plans

Defined contribution plans are post-employment benefit plans under which a municipality pays fixed contributions into a separate entity (a fund) and will have no legal or constructive obligation to pay further contributions if the fund does not hold sufficient assets to pay all employee benefits relating to employee service in the current and prior periods.

When an employee has rendered service to the municipality during a reporting period, the municipality recognises the contribution payable to a defined contribution plan in exchange for that service:

- as a liability (accrued expense), after deducting any contribution already paid. If the contribution already paid exceeds the contribution due for service before the reporting date, a municipality recognises that excess as an asset (prepaid expense) to the extent that the prepayment will lead to, for example, a reduction in future payments or a cash refund; and
- as an expense, unless another Standard requires or permits the inclusion of the contribution in the cost of an asset.

1.16 Provisions and contingencies

1.16.1 Initial Recognition

Provisions are recognised when:

- the municipality has a present obligation as a result of a past event;
- it is probable that an outflow of resources embodying economic benefits or service potential will be required to settle the obligation; and
- a reliable estimate can be made of the obligation.

The amount of a provision is the best estimate of the expenditure expected to be required to settle the present obligation at the reporting date.

Where the effect of time value of money is material, the amount of a provision is the present value of the expenditures expected to be required to settle the obligation.

The discount rate reflects current market assessments of the time value of money and the risks specific to the liability.

1.16.2 Subsequent measurement

Provisions are reviewed at each reporting date and adjusted to reflect the current best estimate. Provisions are reversed if it is no longer probable that an outflow of resources embodying economic benefits or service potential will be required, to settle the obligation.

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1.16 Provisions and contingencies (continued)

Where discounting is used, the carrying amount of a provision increases in each period to reflect the passage of time. This increase is recognised as an interest expense.

A provision is used only for expenditures for which the provision was originally recognised.

Provisions are not recognised for future operating deficits.

Contingent assets and contingent liabilities are not recognised. Contingencies are disclosed by way of a note.

1.17 Revenue from exchange transactions

Revenue is the gross inflow of economic benefits or service potential during the reporting period when those inflows result in an increase in net assets.

An exchange transaction is one in which the municipality receives assets or services, or has liabilities extinguished, and directly gives approximately equal value (primarily in the form of goods, services or use of assets) to the other party in exchange.

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction.

The municipality's main sources of revenue from exchange transactions income include service charges, rental of facilities, sale of stands, licences and permits and interest income.

1.17.1 Measurement

Revenue is measured at the fair value of the consideration received or receivable, net of trade discounts and volume rebates.

1.17.2 Sale of goods (stands and licences and permits)

Revenue from the sale of goods is recognised when all the following conditions have been satisfied:

- the municipality has transferred to the purchaser the significant risks and rewards of ownership of the goods;
- the municipality retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold;
- the amount of revenue can be measured reliably;
- it is probable that the economic benefits or service potential associated with the transaction will flow to the municipality; and
- the costs incurred or to be incurred in respect of the transaction can be measured reliably.

1.17.3 Rendering of services

Rendering of services includes the following service charges: refuse removal, electricity, water and sewerage. When the outcome of a transaction involving the rendering of services can be estimated reliably, revenue associated with the transaction is recognised by reference to the stage of completion of the transaction at the reporting date. The outcome of a transaction can be estimated reliably when all the following conditions are satisfied:

- the amount of revenue can be measured reliably;
- it is probable that the economic benefits or service potential associated with the transaction will flow to the municipality;

When services are performed by an indeterminate number of acts over a specified time frame, revenue is recognised on a straight line basis over the specified time frame unless there is evidence that some other method better represents the stage of completion. When a specific act is much more significant than any other acts, the recognition of revenue is postponed until the significant act is executed.

When the outcome of the transaction involving the rendering of services cannot be estimated reliably, revenue is recognised only to the extent of the expenses recognised that are recoverable.

The municipality recognises prepaid electricity revenue on a prepaid basis as it is difficult for the municipality to determine the amount consumed as at year end for prepaid meters.

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1.17 Revenue from exchange transactions (continued)

1.17.4 Interest

Interest revenue is recognised on a time proportion basis.

1.18 Revenue from non-exchange transactions

Revenue comprises gross inflows of economic benefits or service potential received and receivable by an municipality, which represents an increase in net assets, other than increases relating to contributions from owners.

Exchange transactions are transactions in which one entity receives assets or services, or has liabilities extinguished, and directly gives approximately equal value (primarily in the form of cash, goods, services, or use of assets) to another entity in exchange.

Non-exchange transactions are transactions that are not exchange transactions. In a non-exchange transaction, an municipality either receives value from another municipality without directly giving approximately equal value in exchange, or gives value to another municipality without directly receiving approximately equal value in exchange.

The municipality's main source of revenue from non-exchange transactions income include property rates, government grants and subsidies, public contributions, donations, fines and penalties.

1.18.1 Recognition

An inflow of resources from a non-exchange transaction recognised as an asset is recognised as revenue, except to the extent that a liability is also recognised in respect of the same inflow.

As the municipality satisfies a present obligation recognised as a liability in respect of an inflow of resources from a non-exchange transaction recognised as an asset, it reduces the carrying amount of the liability recognised and recognises an amount of revenue equal to that reduction.

1.18.2 Measurement

Revenue from a non-exchange transaction is measured at the amount of the increase in net assets recognised by the municipality.

When, as a result of a non-exchange transaction, the municipality recognises an asset, it also recognises revenue equivalent to the amount of the asset measured at its fair value as at the date of acquisition, unless it is also required to recognise a liability. Where a liability is required to be recognised it will be measured as the best estimate of the amount required to settle the obligation at the reporting date, and the amount of the increase in net assets, if any, recognised as revenue. When a liability is subsequently reduced, because the taxable event occurs or a condition is satisfied, the amount of the reduction in the liability is recognised as revenue.

1.18.3 Property Rates

The municipality recognises an asset in respect of taxes when the taxable event occurs and the asset recognition criteria are met.

Resources arising from taxes satisfy the definition of an asset when the municipality controls the resources as a result of a past event (the taxable event) and expects to receive future economic benefits or service potential from those resources. Resources arising from taxes satisfy the criteria for recognition as an asset when it is probable that the inflow of resources will occur and their fair value can be reliably measured. The degree of probability attached to the inflow of resources is determined on the basis of evidence available at the time of initial recognition, which includes, but is not limited to, disclosure of the taxable event by the taxpayer.

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1.18 Revenue from non-exchange transactions (continued)

1.18.4 Government grants, Public contributions and donations

Transfer revenue include government grants, subsidies, public contributions, donations, fines, penalties and forfeits. Transfers are inflows of future economic benefits or service potential from non-exchange transactions, other than taxes. Apart from services in kind, which are not recognised, the municipality recognises an asset in respect of transfers when the transferred resources meet the definition of an asset and satisfy the criteria for recognition as an asset.

The municipality recognises an asset in respect of transfers when the transferred resources meet the definition of an asset and satisfy the criteria for recognition as an asset.

Transferred assets are measured at their fair value as at the date of acquisition.

1.18.5 Fines

Fines are economic benefits or service potential received or receivable by municipality, as determined by a court or other law enforcement body, as a consequence of the breach of laws or regulations. Fines are recognised as revenue when the receivable meets the definition of an asset and satisfies the criteria for recognition as an asset.

Assets arising from fines are measured at the best estimate of the inflow of resources to the municipality.

Where the municipality collects fines in the capacity of an agent, the fine will not be revenue of the collecting entity.

1.18.6 Gifts and donations, including goods in-kind

Gifts and donations, including goods in kind, are recognised as assets and revenue when it is probable that the future economic benefits or service potential will flow to the municipality and the fair value of the assets can be measured reliably.

1.19 Borrowing costs

Borrowing costs are interest and other expenses incurred by an entity in connection with the borrowing of funds.

Borrowing costs are recognised as an expense in the period in which they are incurred.

1.20 Comparative figures

Where necessary, comparative figures have been reclassified to conform to changes in presentation in the current year.

1.21 Unauthorised expenditure

Unauthorised expenditure means:

- overspending of a vote or a main division within a vote; and
- expenditure not in accordance with the purpose of a vote or, in the case of a main division, not in accordance with the purpose of the main division.

All expenditure relating to unauthorised expenditure is recognised as an expense in the Statement of Financial Performance in the year that the expenditure was incurred. The expenditure is classified in accordance with the nature of the expense, and where recovered, it is subsequently accounted for as revenue in the Statement of Financial Performance.

1.22 Fruitless and wasteful expenditure

Fruitless and wasteful expenditure means expenditure which was made in vain and would have been avoided had reasonable care been exercised.

All expenditure relating to fruitless and wasteful expenditure is recognised as an expense in the Statement of Financial Performance in the year that the expenditure was incurred. The expenditure is classified in accordance with the nature of the expense, and where recovered, it is subsequently accounted for as revenue in the Statement of Financial Performance.

1.23 Irregular expenditure

- (a) this Act; or
- (b) the State Tender Board Act, 1968 (Act No. 86 of 1968), or any regulations made in terms of the Act; or
- (c) any provincial legislation providing for procurement procedures in that provincial government.

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1.23 Irregular expenditure (continued)

Irregular expenditure is expenditure that is contrary to the Municipal Finance Management Act (Act No.56 of 2003), the Municipal Systems Act (Act No.32 of 2000), and the Public Office Bearers Act (Act No. 20 of 1998) or is in contravention of the economic municipality's supply chain management policy. Irregular expenditure excludes unauthorised expenditure.

Irregular expenditure that was incurred and identified during the current financial year and for which condonement is being awaited at year end must be recorded in the irregular expenditure register. No further action is required with the exception of updating the note to the financial statements.

Where irregular expenditure was incurred in the previous financial year and is only condoned in the following financial year, the register and the disclosure note to the financial statements must be updated with the amount condoned.

Irregular expenditure that was incurred and identified during the current financial year and which was not condoned by the National Treasury or the relevant authority must be recorded appropriately in the irregular expenditure register. If liability for the irregular expenditure can be attributed to a person, a debt account must be created if such a person is liable in law. Immediate steps must thereafter be taken to recover the amount from the person concerned. If recovery is not possible, the accounting officer or accounting authority may write off the amount as debt impairment and disclose such in the relevant note to the financial statements. The irregular expenditure register must also be updated accordingly. If the irregular expenditure has not been condoned and no person is liable in law, the expenditure related thereto must remain against the relevant programme/expenditure item, be disclosed as such in the note to the financial statements and updated accordingly in the irregular expenditure register.

1.24 Budget information

Municipality is subject to budgetary limits in the form of an approved and an adjustment budget which is given effect through council.

General purpose financial reporting by the municipality provides information on whether resources were obtained and used in accordance with the approved budget.

The approved budget is prepared on an accrual basis and presented by nature linked to performance outcome objectives.

The approved budget covers the fiscal period from 01/07/2017 to 30/06/2018.

The annual financial statements and the approved budget are on the same basis of accounting therefore a comparison with the budgeted amounts for the reporting period have been included in the Statement of Comparison of Budget and Actual Amounts.

Comparative information is not required.

Material differences between the original budget and final budget as well as between the final budget and the actual are explained in the Annual Financial Statements. Deviations are regarded as material when they are greater than or equal to 10%. Deviations between approved budget and final budget as well as deviations between final budget and actual, are regarded as material differences

1.25 Events after reporting date

Events after reporting date are those events, both favourable and unfavourable, that occur between the reporting date and the date when the Annual Financial Statements are authorised for issue. Two types of events can be identified:

- those that provide evidence of conditions that existed at the reporting date (adjusting events after the reporting date)
- those that are indicative of conditions that arose after the reporting date (non-adjusting events after the reporting date). There were no significant post balance sheet events that affected the Annual Financial Statements as at 30 June 2018.

1.26 Expenditure

Expenses are decreases in economic benefits or service potential during the reporting period in the form of outflows or consumption of assets or incurrences of liabilities that result in decreases in net assets.

An expense is recognised in the municipality's Statement of Financial Performance when, and only when, the following criteria are satisfied:

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Accounting Policies

1.26 Expenditure (continued)

- The cost or value may involve estimation. Where an item possesses the essential characteristics of an expense but fails to meet the criteria for recognition it is disclosed in the note; and
- All expenditure has been dealt with in terms of the above definition and recognition criteria.

Where an outflow of economic benefits does not result in future benefits, it is disclosed as fruitless and wasteful expenditure. The point at which an expense is recognised is dependent on the nature of the transaction or other event that gives rise to the expense. Where future economic benefits are consumed immediately or soon after acquisition, for example, repairs and maintenance expenditure, bulk purchases and general expenses, the expense is recognised in the reporting period in which the acquisition of the future economic benefit occurs. Where future economic benefits are expected to be consumed over several reporting periods e.g. non-current assets, expenses (depreciation) is allocated systematically to the reporting period during which the future economic benefits are expected to be consumed; where expenditure produces no future economic benefits e.g. fines paid, an expense is recognised immediately; and where a liability is incurred without the recognition of an asset an expense is recognised simultaneously with the recognition of the liability.

Generally, expenses are accounted for on an accrual basis at fair value. Under the accrual basis of accounting expenses are recognised when incurred usually when goods are received or services are consumed. This may not be when the goods or services are actually paid for. Fair value is the amount for which an asset could be exchanged or a liability settled between knowledgeable willing parties in an arm's length transaction.

Major expenses include:

- Write downs of inventory and decreases in fair values of financial instruments classified as held at fair value.
- Losses on the disposal of non-current assets are reported separately from expenses in the Statement of Financial Performance.
- Repairs and maintenance - inclusive of repairs and maintenance to buildings, infrastructure assets, motor vehicles and sports and recreational facilities;
- Bulk purchases - expenditure on the procurement of bulk electricity;
- Contracted services – included are debt collection costs, data cleansing costs, service level agreement costs, property valuation roll and asset register verification costs, software support costs and security services costs.
- Transfers and grants which relate to expenditure pertaining to free basic services; and
- General expenses which constitute several expense items which are not individually significant.
- Employee cost - relating to cost associated with employee contracts.
- Depreciation - Cost associated with the amortisation of property, plant and equipment..

Ga Segonyana Local Municipality

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Notes to the Annual Financial Statements

	2018 R	2017 R
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2. New standards and interpretations

2.1 Standards and interpretations effective and adopted in the current year

In the current year, the municipality has adopted the following standards and interpretations that are effective for the current financial year and that are relevant to its operations:

Standard/ Interpretation:	Effective date: Years beginning on or after	Expected impact:
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2.2 Standards and interpretations issued, but not yet effective

The municipality has not applied the following standards and interpretations, which have been published and are mandatory for the municipality's accounting periods beginning on or after 01 July 2018 or later periods:

Standard/ Interpretation:	Effective date: Years beginning on or after	Expected impact:
• GRAP 34: Separate Financial Statements	01 April 2019	Unlikely there will be a material impact
• GRAP 35: Consolidated Financial Statements	01 April 2019	The impact of the amendment is not material.
• GRAP 36: Investments in Associates and Joint Ventures	01 April 2019	The impact of the amendment is not material.
• GRAP 37: Joint Arrangements	01 April 2019	Unlikely there will be a material impact
• GRAP 38: Disclosure of Interests in Other Entities	01 April 2019	The impact of the amendment is not material.
• GRAP 110 (as amended 2016): Living and Non-living Resources	01 April 2020	Unlikely there will be a material impact
• GRAP 18 (as amended 2016): Segment Reporting	01 April 2019	Unlikely there will be a material impact
• GRAP 20: Related parties	01 April 2019	Unlikely there will be a material impact
• GRAP 32: Service Concession Arrangements: Grantor	01 April 2019	Unlikely there will be a material impact
• GRAP 108: Statutory Receivables	01 April 2019	Unlikely there will be a material impact
• GRAP 109: Accounting by Principals and Agents	01 April 2019	Unlikely there will be a material impact
• IGRAP 17: Service Concession Arrangements where a Grantor Controls a Significant Residual Interest in an Asset	01 April 2019	Unlikely there will be a material impact
• IGRAP 18: Interpretation of the Standard of GRAP on Recognition and Derecognition of Land	01 April 2019	Unlikely there will be a material impact

Directive 5: determining the grap reporting framework

The effective date of the amendment is for years beginning on or after 01 April 2008.

The municipality expects to adopt the amendment for the first time in the 2008 annual financial statements.

Ga Segonyana Local Municipality

Annual Financial Statements for the year ended 30 June 2018

Notes to the Annual Financial Statements

	2018 R	2017 R
3. Inventories		
Other inventories held for sale (land)	52,540,329	53,426,368
Consumable stores	1,219,479	1,992,614
Water	44,829	58,800
	<u>53,804,637</u>	<u>55,477,782</u>
Inventories (write-downs)	-	(9,769)
	<u>53,804,637</u>	<u>55,468,013</u>

4. Receivables from non-exchange transactions

Fines	1,238,230	12,041,148
Motor vehicle and housing loans	61,070	88,337
Other receivables from non-exchange revenue	16,959	98,313
Consumer debtors - Rates	18,422,620	9,411,303
	<u>19,738,879</u>	<u>21,639,101</u>

Included in receivables from non-exchange transactions are balances owing from property rates as follows:

Current (0 - 30 days)	10,058	8
31 - 60 days	571,388	512,725
61 - 90 days	427,300	417,405
91 - 120 days	274,597	343,428
121 - 365 days	1,411,742	1,905,104
> 365 days	24,019,830	29,046,596
	<u>26,714,915</u>	<u>32,225,266</u>
Less: Allowance for impairment	<u>(8,292,295)</u>	<u>(22,813,963)</u>
Net balance	<u>18,422,620</u>	<u>9,411,303</u>

Fines

Gross fines	9,339,884	21,933,772
Write-off	(8,101,654)	(9,892,624)
	<u>1,238,230</u>	<u>12,041,148</u>

Credit quality of receivables from non-exchange transactions

The credit quality of receivables from non-exchange transactions that are past due but not impaired have been assessed by reference to external credit ratings (if available) or to historical information about counterparty default rates.

Based on the assessment conducted by the municipality, the quality of these debtors is considered to be satisfactory.

Receivables from non-exchange transactions past due but not impaired

The ageing of amounts past due but not impaired is as follows:

1 month past due	7,034,925	471,335
2 months past due	3,060,376	398,209
3 months past due	2,071,500	18,438,334

Ga Segonyana Local Municipality

Annual Financial Statements for the year ended 30 June 2018

Notes to the Annual Financial Statements

	2018 R	2017 R
5. VAT		
VAT	17,189,868	15,309,553
Amounts outstanding from SARS at year end	10,488,898	11,521,669
VAT on accrual basis	6,700,970	3,787,884
	17,189,868	15,309,553
6. Receivables from exchange transactions		
Gross balances		
Electricity	12,621,512	10,107,953
Water	4,113,157	7,589,682
Sewerage	31,085,257	15,065,430
Refuse	10,855,057	9,541,046
Unallocated deposits	2,749,381	-
Sundry debtors	23,729,070	26,567,562
	85,153,434	68,871,673
Less: Allowance for impairment		
Less: Allowance for impairment	(39,033,980)	(48,757,884)
Net balance	46,119,454	20,113,789
Sundry debtors includes interest on overdue service charges accounts.		
Electricity		
Current (0 -30 days)	2,264,327	4,395,850
31 - 60 days	779,768	2,069,033
61 - 90 days	619,790	500,980
91 - 120 days	531,337	409,772
121 - 365 days	1,985,889	1,103,968
> 365 days	6,440,401	1,628,350
	12,621,512	10,107,953
Water		
Current (0 -30 days)	1,609,851	3,238,242
31 - 60 days	521,673	753,379
61 - 90 days	530,274	453,974
91 - 120 days	483,434	243,867
121 - 365 days	967,925	1,248,444
> 365 days	-	1,651,776
	4,113,157	7,589,682
Sewerage		
Current (0 -30 days)	1,033,752	950,271
31 - 60 days	642,056	614,689
61 - 90 days	518,575	458,791
91 - 120 days	490,173	356,031
121 - 365 days	2,326,483	1,838,164
> 365 days	26,074,218	10,847,484
	31,085,257	15,065,430

Ga Segonyana Local Municipality

Annual Financial Statements for the year ended 30 June 2018

Notes to the Annual Financial Statements

	2018 R	2017 R
6. Receivables from exchange transactions (continued)		
Refuse		
Current (0 -30 days)	571,444	529,317
31 - 60 days	384,380	345,265
61 - 90 days	306,625	251,244
91 - 120 days	270,517	216,999
121 - 365 days	1,457,055	1,126,693
> 365 days	7,865,036	7,071,528
	10,855,057	9,541,046
Other (specify)		
Current (0 -30 days)	1,780,610	1,119,091
31 - 60 days	421,601	923,583
61 - 90 days	-	649,628
91 - 120 days	-	445,704
121 - 365 days	129,845	3,174,152
> 365 days	21,397,014	20,255,404
	23,729,070	26,567,562
Reconciliation of allowance for impairment		
Balance at beginning of the year	(48,659,525)	(34,079,022)
Contributions to allowance	9,625,545	(14,678,862)
	(39,033,980)	(48,757,884)

Credit quality of consumer debtors

The credit quality of receivables from exchange transactions that are past due but not impaired have been assessed by reference to external credit ratings (if available) or to historical information about counterparty default rates.

Based on the assessment conducted by the municipality, the quality of these debtors is considered to be satisfactory.

Consumer debtors past due but not impaired

The ageing of amounts past due but not impaired is as follows:

1 month past due	7,734,125	10,232,771
2 months past due	3,225,856	4,705,949
3 months past due	2,364,123	2,314,617

7. Cash and cash equivalents

Cash and cash equivalents consist of:

Cash on hand	6,050	6,050
Other cash and cash equivalents	11,682,138	984,073
	11,688,188	990,123

Ga Segonyana Local Municipality

Annual Financial Statements for the year ended 30 June 2018

Notes to the Annual Financial Statements

	2018 R	2017 R
7. Cash and cash equivalents (continued)		
The municipality had the following bank accounts		
Account number / description	Bank statement balances 30 June 2018	Cash book balances 30 June 2018
Petty cash float	-	6,050
FNB CHEQUE ACC - 62649722883	1,110,259	2,016,116
FNB CHEQUE ACC - 62652542632	128,643	128,643
FNB 7 DAY CALL ACC 74690806392	4,795,448	4,795,448
FNB CALL ACCOUNT	5,028,796	5,028,796
Total	11,063,146	11,975,053
	23,608,872	990,123

8. Investment property

	Cost / Valuation	Carrying value	Cost / Valuation	Carrying value
Investment property	6,756,100	6,756,100	6,756,100	6,756,100

Reconciliation of investment property - 2018

	Opening balance	Total
Investment property	6,756,100	6,756,100

Reconciliation of investment property - 2017

	Opening balance	Total
Investment property	6,961,100	6,756,100

A register containing the information required by Section 63 of the Municipal Finance Management Act is available for inspection at the registered office of the municipality.

Details of valuation

Investment property is reviewed by a professional valuer once every 4 years in line with the statutory requirements of the Municipal Property Rates Act (Chapter 6 of 2004). The last external valuation was done by an independent professional valuer on 1 July 2014. The valuation which conforms to international valuation standards is arrived at by reference to market evidence of transaction prices for similar properties.

Ga Segonyana Local Municipality

Annual Financial Statements for the year ended 30 June 2018

Notes to the Annual Financial Statements

9. Property, plant and equipment

	2018		2017		
	Cost / Valuation	Accumulated depreciation and accumulated impairment	Cost / Valuation	Accumulated depreciation and accumulated impairment	
Land	19,962,100	-	19,962,100	19,962,100	19,962,100
Buildings	136,414,384	(47,448,457)	88,965,927	130,876,764	(42,002,654) 88,874,110
Plant and machinery	3,260,385	(1,935,129)	1,325,256	3,897,014	(2,326,362) 1,570,652
Furniture and fixtures	5,018,289	(3,730,566)	1,287,723	4,959,852	(3,858,906) 1,100,946
Motor vehicles	21,453,322	(8,375,991)	13,077,331	10,649,078	(7,945,897) 2,703,181
Office equipment	12,757,583	(8,130,680)	4,626,903	13,353,566	(7,062,048) 6,291,518
Infrastructure	1,758,952,700	(632,030,135)	1,126,922,565	1,699,440,312	(585,210,586) 1,114,229,726
Emergency equipment	33,309	(29,555)	3,754	121,069	(72,866) 48,203
Total	1,957,852,072	(701,680,513)	1,256,171,559	1,883,259,755	(648,479,319) 1,234,780,436

Notes to the Annual Financial Statements

9. Property, plant and equipment (continued)

Reconciliation of property, plant and equipment - 2018

	Opening balance	Additions	Disposals	Transfers	Depreciation on disposal	Depreciation	Impairment loss	Impairment reversal	Total
Land	19,962,100	-	-	-	-	-	-	-	19,962,100
Buildings	88,874,110	5,930,690	-	(393,070)	-	(2,887,645)	(2,651,195)	93,037	88,965,927
Plant and machinery	1,570,652	298,230	(934,888)	-	737,837	(276,209)	(70,396)	-	1,325,256
Furniture and fixtures	1,100,946	629,541	(575,120)	-	491,659	(341,229)	(18,525)	451	1,287,723
Motor vehicles	2,703,181	11,692,765	(888,520)	-	786,905	(909,957)	(307,043)	-	13,077,331
Office equipment	6,291,518	1,086,438	(1,682,421)	-	1,426,325	(2,415,814)	(79,143)	-	4,626,903
Infrastructure	1,114,229,726	59,512,389	-	-	59,361	(46,340,765)	(562,048)	83,263	1,126,922,565
Emergency equipment	48,203	-	(87,760)	-	-	(16,014)	(36)	-	3,754
1,234,780,436	79,150,053	(4,168,679)	(393,070)	3,502,087	(53,187,633)	(3,688,386)	176,751	1,256,171,559	

Reconciliation of property, plant and equipment - 2017

	Opening balance	Additions	Disposals	Transfers	Depreciation on disposal	Depreciation	Impairment loss	Impairment reversal	Total
Land	23,841,100	-	-	-	-	-	-	-	23,841,100
Buildings	101,080,505	577,825	(3,208,880)	-	288,726	(2,811,598)	(7,052,468)	-	88,874,110
Plant and machinery	1,950,923	99,148	(421,992)	-	320,132	(373,492)	(4,067)	-	1,570,652
Furniture and fixtures	1,533,849	204,987	(503,490)	-	378,910	(493,419)	(19,891)	-	1,100,946
Motor vehicles	3,792,347	-	(611,135)	-	494,272	(972,303)	-	-	2,703,181
Office equipment	6,049,206	3,029,134	(2,355,529)	-	2,071,315	(2,428,585)	(74,023)	-	6,291,518
Infrastructure	1,063,372,207	108,384,621	-	-	24,595	(48,136,453)	(9,390,649)	-	1,114,229,726
Emergency equipment	83,987	-	(33,670)	-	-	(26,081)	(628)	-	48,203
1,201,704,124	112,295,715	(7,134,696)	(3,879,000)	3,577,950	(55,241,931)	(16,541,726)	- 1,234,780,436		

Ga Segonyana Local Municipality

Annual Financial Statements for the year ended 30 June 2018

Notes to the Annual Financial Statements

	2018 R	2017 R
9. Property, plant and equipment (continued)		
Compensation received for losses on property, plant and equipment – included in operating profit.		
Assets subject to finance lease (Net carrying amount)		

Office Equipment	3,226,051	3,798,421
Motor vehicles	10,365,525	341,453
	13,591,576	4,139,874

Revaluations

The effective date of the revaluations was 01 July 2014. Revaluations were performed by independent valuer, TT Property Consultants [Property valuers], are not connected to the municipality.

Investment property are re-valued independently every 4 years.

The valuation was performed using the discounted cash flow approach.

These assumptions were based on current market conditions.

Property, plant and equipment in the process of being constructed or developed

Cumulative expenditure recognised in the carrying value of property, plant and equipment

Infrastructure	121,834,747	98,953,384
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Ga Segonyana Local Municipality

Annual Financial Statements for the year ended 30 June 2018

Notes to the Annual Financial Statements

	2018 R	2017 R
9. Property, plant and equipment (continued)		
Carrying value of property, plant and equipment that is taking a significantly longer period of time to complete than expected		
MIG 1317: Vergenoeg-Maruping: Upgrading link road to bituminous standard (Phase 2) Constant damages to the road due to residents perpetual behaviour of driving in the road even before all works are completed has delayed the completion period of the project	- 18,075,379	
Construction of Mapoteng water network extensions During the geophysical and geohydrological study, it was realised that the entire area of Mapoteng does not have sufficient water, two sites from Ditshoswaneng and Sweethome were recently identified with sufficient water, but the pipeline distance was not earmarked in the business plan. The decision with DWS was that an application for source development be submitted for funding, a short term solution was to refurbish and utilize the existing borehole that was stopped in 2009. Testing was done and recommendation to pump 5l/s for 12hrs in order to get enough water for the next 12 months or more hence the revised completion date was made for extention of reticulation and standpipes	- 11,095,707	
Construction of Mokalamosesane bulk water supply augmentation phase 2 Intervention from the political office is required to address the nominations of the local laborers	- 7,729,495	
Bankhara Bodulong: Construction of lined double pit sanitation toilets Delay due to delivery of material which were damaged and signing of the happy letters due to unavailability of some of the beneficiaries, Miscalculation by Consultant in including their fees on the of Construction cost, as a result number of units increased from 380- 496.	- 8,733,876	
Bankara boudolong roads Delay due to delivery of material which were damaged and signing of the happy letters due to unavailability of some of the beneficiaries, Miscalculation by Consultant in including their fees on the of Construction cost, as a result number of units increased from 380- 496.	8,435,380	
Bankhara Ncweng road Delay due to delivery of material which were damaged and signing of the happy letters due to unavailability of some of the beneficiaries, Miscalculation by Consultant in including their fees on the of Construction cost, as a result number of units increased from 380- 496.	3,890,576	
	12,325,956	45,634,457
Carrying value of property, plant and equipment where construction or development has been halted either during the current or previous reporting period(s)		
MIG 1318: Vergenoeg-Batlharos: Upgrading link road to Bituminous standard (Phase 2) The project was not completed within the allocated time due to the project being put on hold for local election processes due to lots of community unrest, was later reestablished on 05 September 2016 with the revised completion of 17 May 2017. There were also delays due to late payment of contractor hence the project was completed July 2017	- 20,415,122	
Kuruman Bulk Water This project was halted as funds were not available to continue with the project. This project was funded by RBIG and the mines are going to fund the project going forward.	56,217,012	
	56,217,012	20,415,122

Ga Segonyana Local Municipality

Annual Financial Statements for the year ended 30 June 2018

Notes to the Annual Financial Statements

9. Property, plant and equipment (continued)

Reconciliation of Work-in-Progress 2018

	Included within Infrastructure	Included within Community	Total
Opening balance	139,827,366	392,086	140,219,452
Additions/capital expenditure	58,119,519	-	58,119,519
Transferred to completed items	(76,112,238)	(392,086)	(76,504,324)
	121,834,647	-	121,834,647

Reconciliation of Work-in-Progress 2017

	Included within Infrastructure	Included within Community	Total
Opening balance	141,026,281	-	141,026,281
Additions/capital expenditure	97,754,469	392,086	98,146,555
Transferred to completed items	(98,953,384)	-	(98,953,384)
	139,827,366	392,086	140,219,452

Expenditure incurred to repair and maintain property, plant and equipment

A register containing the information required by section 63 of the Municipal Finance Management Act is available for inspection at the registered office of the municipality.

Ga Segonyana Local Municipality

Annual Financial Statements for the year ended 30 June 2018

Notes to the Annual Financial Statements

	2018 R	2017 R
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10. Intangible assets

	2018			2017		
	Cost / Valuation	Accumulated amortisation and accumulated impairment	Carrying value	Cost / Valuation	Accumulated amortisation and accumulated impairment	Carrying value
Computer software	1,038,666	(688,113)	350,553	2,059,582	(1,486,477)	573,105

Reconciliation of intangible assets - 2018

	Opening balance	Additions	Disposals	Amortisation	Total
Computer software	573,105	134,561	(52,727)	(304,386)	350,553

Reconciliation of intangible assets - 2017

	Opening balance	Additions	Disposals	Amortisation	Total
Computer software	584,243	400,000	(138,526)	(272,612)	573,105

11. Heritage assets

	2018			2017		
	Cost / Valuation	Accumulated impairment losses	Carrying value	Cost / Valuation	Accumulated impairment losses	Carrying value
Mayoral chain	5,642	-	5,642	5,642	-	5,642
The Eye	1,650,000	-	1,650,000	1,650,000	-	1,650,000
Total	1,655,642	-	1,655,642	1,655,642	-	1,655,642

Reconciliation of heritage assets 2018

	Opening balance	Total
Mayoral chain	5,642	5,642
The Eye	1,650,000	1,650,000
Total	1,655,642	1,655,642

Reconciliation of heritage assets 2017

	Opening balance	Total
Mayoral chain	5,642	5,642
The Eye	1,650,000	1,650,000
Total	1,655,642	1,655,642

Heritage assets are assets that have a cultural, environmental, historical, natural, scientific, technological or artistic significance and are held indefinitely for the benefit of present and future generations.

The municipality recognises a heritage asset as an asset if it is probable that future economic benefits or service potential associated with the asset will flow to the municipality, and the cost or fair value of the asset can be measured reliably.

Ga Segonyana Local Municipality

Annual Financial Statements for the year ended 30 June 2018

Notes to the Annual Financial Statements

11. Heritage assets (continued)

Heritage assets are measured at cost.

Where a heritage asset is acquired through a non-exchange transaction, its cost is measured at its fair value as at the date of acquisition.

After recognition as an asset, a class of heritage assets is carried at its cost less any accumulated impairment losses.

The municipality assesses at each reporting date whether there is an indication that it may be impaired. If any such indication exists, the municipality estimates the recoverable amount or the recoverable service amount of the heritage asset.

Transfers from heritage assets are only made when the particular asset no longer meets the definition of a heritage asset.

Transfers to heritage assets are only made when the asset meets the definition of a heritage asset.

The municipality derecognises heritage assets on disposal, or when no future economic benefits or service expected from its use or disposal, potential are expected from its use or disposal.

2018	2017
R	R

12. Other financial liabilities

At amortised cost

DBSA Bank loan	16,355,874	21,334,249
The Borrower shall cede to the DBSA, security in the form of a cession over its income stream, covering the instalments outstanding, plus interest and collection charges outstanding, at any time during the term of the loan		
The borrower hereby agrees to create and deposit at a recognised commercial bank, an amount equal to two instalments over a period of one year of the respective loan period. This amount is to be ceded to the DBSA as security for the loan		
Equitable share withheld	4,254,000	-

This was paid in three equal instalments ending July 2018.

20,609,874 21,334,249

Total other financial liabilities

20,609,874 21,334,249

Non-current liabilities

At amortised cost	13,158,864	14,667,776
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Current liabilities

At amortised cost	7,451,010	6,666,473
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Defaults and breaches

The loans below were in default as a result of not meeting capital repayment requirements as per the contractual arrangements. This was due to cash flow timing delays. The default was rectified before annual financial statements were authorised for issue.

Contract number	Loan number	Start date	Planned end date	Loan term (Years)	Interest rate per annum
61000505	102274/2	2006/03/01	2026/02/28	20	8.4
61003307	13891/201	2001/12/20	2023/06/30	20	10.7
61000632	102568/2	2007/11/19	2027/12/31	20	5.0
61000357	101738/2	2005/03/24	2025/06/30	20	9.3
61001387	11099/102	1998/04/24	2018/06/30	20	15.0
61000038	100234/1	2003/08/07	2024/12/31	20	11.5

Ga Segonyana Local Municipality

Annual Financial Statements for the year ended 30 June 2018

Notes to the Annual Financial Statements

12. Other financial liabilities (continued)

Maturity analysis

At 30 June 2018	Less than 1 year	Between 1 and 2 years	Between 2 and 5 years	Over 5 years
DBSA Bank loan	7,451,010	8,904,864	-	-
Equitable share withheld	-	4,254,000	-	-
At 30 June 2017	Less than 1 year	Between 1 and 2 years	Between 2 and 5 years	Over 5 years
DBSA Bank loan	6,666,473	14,667,776	-	-
Equitable share withheld	-	-	-	-

The municipality's risk to liquidity is a result of the funds available to cover future commitments. The municipality manages liquidity risk through an ongoing review of future commitments and credit facilities.

Cash flow forecasts are prepared and adequate utilised borrowing facilities are monitored.

13. Finance lease obligation

Minimum lease payments due

- within one year	9,707,356	2,496,537
- in second to fifth year inclusive	11,345,344	3,584,265
	21,052,700	6,080,802
less: future finance charges	(8,837,001)	(1,664,677)
Present value of minimum lease payments	12,215,699	4,416,125

Present value of minimum lease payments due

- within one year	4,773,650	1,597,114
- in second to fifth year inclusive	7,442,049	2,819,011
	12,215,699	4,416,125

Non-current liabilities

Current liabilities	7,442,049	2,819,011
	12,215,699	4,416,125

It is municipality policy to lease certain [property]motor vehicles and equipment under finance leases.

The average lease term was 2-5 years and the average effective borrowing rate was 26% (2017: 26%).

Interest rates are linked to prime at the contract date. All leases have fixed repayments and no arrangements have been entered into for contingent rent.

The municipality's obligations under finance leases are secured by the lessor's charge over the leased assets. Refer note 9.

Ga Segonyana Local Municipality

Annual Financial Statements for the year ended 30 June 2018

Notes to the Annual Financial Statements

	2018 R	2017 R
14. Payables from exchange transactions		
Trade payables	83,390,389	95,247,988
Accruals	6,718,262	-
Unallocated deposits	947,393	-
Retention monies	12,394,997	14,423,003
Sale of stands	9,588,264	2,333,120
Sundry payables	2,617,685	1,930,088
Debtors with credit balances	2,092,317	206,579
Employee costs accrual	5,892,002	5,438,944
Group life Insurance	2,026,646	2,367,006
	125,667,955	121,946,728

15. Consumer deposits

Service accounts	3,903,569	3,683,443
Housing rental	1,430,750	518,996
	5,334,319	4,202,439

Consumer deposits represent amounts received in advance and held as surety for service accounts and other services.

16. Employee benefit obligations

The amounts recognised in the statement of financial position are as follows:

Carrying value		
Present value of the defined benefit obligation-wholly unfunded	(26,971,357)	(24,823,901)
Non-current liabilities	(25,352,432)	(23,424,176)
Current liabilities	(1,618,925)	(1,399,725)
	(26,971,357)	(24,823,901)

The municipality provides certain post-retirement health care benefits by funding the medical aid contributions of qualifying retired members of the municipality. According to the rules of the medical aid funds, with which the municipality is associated, a member is entitled to continue as a member of such medical aid fund on retirement, in which case the municipality is liable for a certain portion of the medical aid membership fee. The municipality operates an unfunded defined benefit plan for these qualifying employees. No other post-retirement benefits are provided to these employees.

The most recent actuarial valuations of plan assets and the present value of the defined benefit obligation were carried out at 30 June 2018 by Mr C Weiss, Fellow of the Actuarial Society of South Africa. The present value of the defined benefit obligation, and the related current service cost and past service cost, were measured using the projected unit credit method.

Long service award

The members of the long service award are made up as follows:

Eligible employees at the beginning of the period	315	315
New entries	10	16
Exits	(17)	(16)
	308	315

Movements in the present value of the defined benefit obligations were as follows:

Ga Segonyana Local Municipality

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Notes to the Annual Financial Statements

	2018 R	2017 R
16. Employee benefit obligations (continued)		
Opening balance	4,353,215	3,989,044
Actuarial loss	114,663	(332,577)
Total annual expense	395,035	696,748
	4,862,913	4,353,215

The amounts recognised in the Statement of Financial Performance are as follows:

Current service cost	541,141	546,035
Interest cost	350,152	329,143
Actuarial (gains) losses	114,663	(178,430)
Expected employer benefit vesting	(496,258)	(332,577)
	509,698	364,171

Movements in the present value of the defined benefit obligation were as follows:

Assumptions used at the reporting date:

Discount rates used	8.63 %	8.52 %
General salary inflation rate	6.22 %	6.34 %
Expected rate of return on reimbursement rights	2.27 %	2.05 %
Average retirement age	65	65

The basis used to determine the overall expected rate of return on assets is as follows:

A discount rate of 8.63% per annum has been used. The first step in the derivation of this yield is to calculate the liability-weighted average of the yields corresponding to the actual terms until payment of long service awards, for each employee. The 8.63% is then derived as the liability-weighted average of the yields derived in the first step. The corresponding liability-weighted index-linked yield is 2.77%. These rates do not reflect any adjustment for taxation. These rates were deducted from the interest rate data obtained from the JSE after the market close on 29 June 2018.

Sensitivity analysis

Assumed healthcare cost trends rates have a significant effect on the amounts recognised in surplus or deficit. A one percentage point change in assumed healthcare cost trends rates would have the following effects:

	One percentage point increase	One percentage point decrease
Effect on the aggregate of the service cost and interest cost	968,100	823,100
Effect on defined benefit obligation	5,215,000	4,547,000

The history of experienced adjustments is as follows:

	2018 R	2017 R	2016 R	2015 R	2014 R
Defined benefit obligation	4,862,913	4,353,215	3,989,044	3,488,880	3,027,002
Surplus (deficit)	(4,862,913)	(4,353,215)	(3,989,044)	(3,488,880)	(3,027,002)
Experience adjustments on plan liabilities	193,943	76,211	209,294	86,911	130,911

Post employment medical aid subsidy

The members of the post-employment health care benefit plan are made up as follows:

Ga Segonyana Local Municipality

Annual Financial Statements for the year ended 30 June 2018

Notes to the Annual Financial Statements

	2018 R	2017 R
16. Employee benefit obligations (continued)		
Heading		
In-service members	189	195
In-service non-members	119	120
Continuation members	26	24
	334	339

Movements in the present value of the defined benefit obligations were as follows:

Opening balance	20,470,686	20,143,908
Actuarial gain	(640,980)	(1,899,321)
Total annual expense	2,278,738	2,226,099
	22,108,444	20,470,686

The amounts recognised in the Statement of Financial Performance are as follows:

Current service cost	1,276,818	1,202,549
Interest cost	1,905,387	1,846,198
Actuarial (gains) losses	(640,980)	(1,899,321)
Expected employer benefit vesting	(903,467)	(822,648)
	1,637,758	326,778

Movements in the present value of the defined benefit obligation were as follows:

Assumptions used at the reporting date:

Discount rates used	9.46 %	9.51 %
Health care cost inflation rate	7.32 %	7.81 %
Net-of-health-care-cost-inflation discount rate	1.99 %	1.58 %
Maximum subsidy inflation rate	5.12 %	5.48 %
Net-of-maximum-subsidy-inflation discount rate	4.13 %	3.82 %
Average retirement age	65	65

The basis used to determine the overall expected rate of return on assets is as follows:

A discount rate of 9.46% per annum has been used. The corresponding index-linked yield at this term is 2.97%. These rates do not reflect any adjustment for taxation. These rates were deducted from the interest rate data obtained from the Johannesburg Stock Exchange after the market close on 29 June 2018.

These rates were calculated using a liability-weighted average of the yields for the three components of the liability. Each component's fixed-interest and index-linked yields were taken from the respective bond yield curves at that component's duration, using an iterative process (because the yields depend on the liability, which in turn depends on the yields).

Health Care Cost Inflation Rate: This assumption is required to reflect estimated future changes in the cost of medical services, resulting from both inflation and specific changes in medical costs (for example, due to technological advances or changes in utilisation patterns). Any assumption regarding future medical scheme contribution increases is therefore subjective.

Health Care Cost Inflation Rate of 7.32% has been assumed. This is 1.50% in excess of expected CPI inflation over the expected term of the liability, namely 5.82%. A larger differential would be unsustainable, eventually forcing members to less expensive options. This implies a net discount rate of 1.99% which derives from $((1+9.46\%)/(1+7.32\%))-1$.

The expected inflation assumption of 5.82% was obtained from the differential between market yields on index-linked bonds consistent with the estimated term of the liabilities (2.97%) and those of fixed interest bonds (9.46%) with a risk premium adjustment for the uncertainty implicit in guaranteeing real increases (0.50%). This was therefore determined as follows: $((1+9.46\%-0.50\%)/(1+2.97\%))-1$.

Ga Segonyana Local Municipality

Annual Financial Statements for the year ended 30 June 2018

Notes to the Annual Financial Statements

	2018 R	2017 R
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16. Employee benefit obligations (continued)

Sensitivity analysis

Assumed healthcare cost trends rates have a significant effect on the amounts recognised in surplus or deficit. A one percentage point change in assumed healthcare cost trends rates would have the following effects:

	One percentage point increase	One percentage point decrease
Effect on the aggregate of the service cost and interest cost	3,397,500	2,864,300
Effect on defined benefit obligation	23,468,000	20,229,000

The history of experienced adjustments is as follows:

	2018 R	2017 R	2016 R	2015 R	2014 R
Defined benefit obligation	22,108,000	20,471,000	20,144,000	20,080,000	20,911,000
Surplus (deficit)	(22,108,000)	(20,471,000)	(20,144,000)	(20,080,000)	(20,911,000)
Experience adjustments on plan liabilities	604,000	418,000	(237,000)	(2,306,000)	1,475,000

17. Unspent conditional grants and receipts

Unspent conditional grants and receipts comprises of:

Unspent conditional grants and receipts

Municipal Infrastructure Grant	-	7,893,313
Library Grant	-	948,593
Finance Management Grant	-	98,000
EPWP Grant	113,300	116
INEP Grant	1,032	818,940
RBIG Grant	22,184	4,522,184
ACIP Grant	8,902	261,070
Rural Housing Infrastructure Grant	-	70
Water Services Infrastructure Grant	1,554,151	3,950,280
	1,699,569	18,492,566

18. Provisions

Reconciliation of provisions - 2018

	Opening Balance	Change in discount factor	Reduction due to re- measurement	Total
Provision for rehabilitation of landfill sites	4,870,378	485,133	7,535,986	12,891,497

Reconciliation of provisions - 2017

	Opening Balance	Change in discount factor	Reduction due to re- measurement	Total
Provision for rehabilitation of landfill sites	9,860,959	441,151	(5,431,733)	4,870,377

The municipality has an obligation to rehabilitate the landfill sites of Ga Segonyana.

The environmental rehabilitation provision represents the estimated costs to rehabilitate and close existing waste landfill sites. The provision is recognised at the present value of the expenditure expected to settle the obligation.

Ga Segonyana Local Municipality

Annual Financial Statements for the year ended 30 June 2018

Notes to the Annual Financial Statements

	2018 R	2017 R
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18. Provisions (continued)

The valuation of the landfill site provision was done by EMS Advisory (Pty) Ltd, a company which specialises in infrastructure maintenance and environmental consultancy services to municipalities and the professional valuator on the project was Alden Bowers PrEng, with extensive experience and expertise relevant for this type of work.

The future value of the rehabilitation of landfill sites obligation was calculated by inflating the non-current cost to an estimated future cost which is then discounted to present value. Interest rate used is 10.29%.

Ga Segonyana Local Municipality

Annual Financial Statements for the year ended 30 June 2018

Notes to the Annual Financial Statements

	2018 R	2017 R
18. Provisions (continued)		
Key assumptions		
Total Site Area	61 826 m ²	
Area of waste body to be rehabilitated in future (waste footprint) (m ²)	46 055 m ²	
Estimated site closure date	2028	
Assumed site start date	1994	
Assumed total site life	36 years	
Remaining site life (as at 01 July 2018) (years)	approximately 10 years	
Estimated annual airspace consumption (m ³)	6 156	
Estimated total airspace (m ³)	186 420	
The applicable discount rate (which is the rate specifically associated with the risk of the cash flow being discounted) relevant cash flows in 2018	10.29% (based on Government Bond yield rate of 9.035% and an Adjustment for risk of 1.25%)	
Estimated airspace remaining (m ³)	72 241	
Airspace consumed to date		61 %
19. Revaluation reserve		
Opening balance	14,835,415	20,837,415
Change during the year	-	(6,002,000)
	14,835,415	14,835,415
Revaluation reserve balance is as a result of the gains in the fair value of land held by the municipality.		
20. Revenue		
Sale of stands	864,010	8,347,818
Service charges	140,660,584	122,671,589
Rental of facilities	1,688,622	1,926,041
Interest received on outstanding receivables	5,616,813	5,901,682
Licences and permits	5,757,645	5,050,505
Other revenue	2,561,479	14,962,597
Interest investment	2,155,587	176,099
Property rates	38,408,384	36,636,136
Government grants & subsidies	232,798,246	226,228,557
Public contributions and donations	2,789,054	699,022
Fines, penalties and forfeits	1,120,100	9,739,846
	434,420,524	432,339,892
The amount included in revenue arising from exchanges of goods or services are as follows:		
Sale of stands	864,010	8,347,818
Service charges	140,660,584	122,671,589
Rental of facilities	1,688,622	1,926,041
Interest on outstanding receivables	5,616,813	5,901,682
Licences and permits	5,757,645	5,050,505
Other revenue	2,561,479	14,962,597
Interest on investments	2,155,587	176,099
	159,304,740	159,036,331

Ga Segonyana Local Municipality

Annual Financial Statements for the year ended 30 June 2018

Notes to the Annual Financial Statements

	2018 R	2017 R
20. Revenue (continued)		
The amount included in revenue arising from non-exchange transactions is as follows:		
Taxation revenue		
Property rates	38,408,384	36,636,136
Transfer revenue		
Government grants & subsidies	232,798,246	226,228,557
Public contributions and donations	2,789,054	699,022
Fines, Penalties and Forfeits	1,120,100	9,739,846
	275,115,784	273,303,561
21. Service charges		
Sewer levied	17,913,515	15,133,862
Sale of electricity	91,377,021	81,925,461
Sale of water	21,653,976	17,472,793
Refuse removal	8,744,488	7,921,120
New connections and administration fees	971,584	218,353
	140,660,584	122,671,589
22. Rental of facilities		
Premises		
Premises	1,688,622	1,926,041
23. Other revenue		
Other revenue	2,561,479	14,962,597
24. Investment revenue		
Interest revenue		
Bank	2,155,587	161,559
Loans to directors managers and employees	-	14,540
	2,155,587	176,099
25. Property rates		
Rates levied		
Property rates levied	39,452,206	38,042,684
Less: Income forgone	(1,043,822)	(1,406,548)
	38,408,384	36,636,136

Ga Segonyana Local Municipality

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Notes to the Annual Financial Statements

	2018 R	2017 R
25. Property rates (continued)		
Valuations		
Residential	2,737,704,400	2,770,047,300
Commercial	851,340,300	854,588,700
State	130,037,800	78,234,000
Municipal	167,960,000	133,227,800
Agriculture	1,811,083,000	1,811,083,000
Industrial	184,204,500	186,418,500
	5,882,330,000	5,833,599,300

Valuations on land and buildings are performed every 4 years. The last general valuation came into effect on 1 July 2014. Interim valuations are processed on an annual basis to take into account changes in individual property values due to the impact of alterations, subdivisions and consolidations.

26. Government grants and subsidies realised

Operating grants

Equitable share	132,415,580	117,412,722
Library Grant	2,769,593	1,800,519
Finance Management Grant (FMG)	2,242,997	1,712,000
Expanded Public Works Program Grant (EPWP)	1,199,482	999,884
Department of Minerals and Energy Grant (DME)	-	1,181,060
ACIP Grant	252,168	-
	138,879,820	123,106,185

Capital grants

Municipal Infrastructure Grant (MIG)	54,204,318	43,627,687
Rural Bulk Infrastructure Grant (RBIG)	70	7,644,965
Integrated National Electrification Programme (INEP)	5,817,908	-
Water Services Infrastructure Grant (WSIG)	33,896,130	51,849,720
	93,918,426	103,122,372
	232,798,246	226,228,557

Conditional and Unconditional

Included in above are the following grants and subsidies received and or spent:

Conditional grants received	98,506,181	126,506,149
Unconditional grants received	132,415,580	117,412,722
	230,921,761	243,918,871

Equitable Share

In terms of section 227 of the Constitution, this grant is used to enable the municipality to provide basic services and perform functions allocated to it. The Equitable Share Grant also provides funding to the municipality to deliver free basic services to poor households and to subsidise costs of administration and other core services of the municipality. The grant is realised in full upon receipt.

Ga Segonyana Local Municipality

Annual Financial Statements for the year ended 30 June 2018

Notes to the Annual Financial Statements

	2018 R	2017 R
26. Government grants and subsidies realised (continued)		
Municipal Infrastructure Grant		
Balance unspent at beginning of year	7,893,313	-
Converted to loan (Unapproved roll over) [1]	(7,900,000)	-
Current-year receipts	54,211,000	51,521,000
Conditions met - transferred to revenue	(54,204,313)	(43,627,687)
	<hr/>	<hr/>
	-	7,893,313

Conditions still to be met - remains a liability and included under Unspent Conditional Grants.

The grant is mainly used to fund infrastructure related projects (mainly as part of the service delivery). Capitalised projects funded by this grant are included in property, plant and equipment whilst the unspent portion of the grant is included in current liabilities.

[1] The rollover was not approved by National Treasury. The unapproved roll over was converted to a loan from National Treasury, the repayments were made from withholding of equitable share in three equal instalments of R4 266 666.67 and the last instalment was deducted in July 2018.

Municipal Systems Infrastructure Grant

Balance unspent at beginning of year	-	173,815
Conditions met - transferred to revenue	-	(173,815)
	<hr/>	<hr/>

The purpose of the grant is to assist municipalities to perform their functions and stabilise institutional and governance systems as required in the Municipal Systems Act and related legislation. No allocation was given to the municipality in the current year.

Library Grant

Balance unspent at beginning of year	948,593	541,112
Current-year receipts	1,821,000	2,208,000
Conditions met - transferred to revenue	(2,769,593)	(1,800,519)
	<hr/>	<hr/>

The purpose is to fund capital projects and maintenance of library facilities the community.

Department of Water Affairs (DWAF)

Balance unspent at beginning of year	-	2,536,262
Amounts withheld	-	(2,536,262)
	<hr/>	<hr/>

The purpose of the grant is to facilitate the planning, acceleration and implementation of various projects that will ensure water supply to communities identified as not receiving a basic water supply service. No allocation was given to the municipality in the current year.

Ga Segonyana Local Municipality

Annual Financial Statements for the year ended 30 June 2018

Notes to the Annual Financial Statements

	2018 R	2017 R
26. Government grants and subsidies realised (continued)		
Finance Management Grant (FMG)		
Balance unspent at beginning of year	98,000	-
Current-year receipts	2,145,000	1,810,000
Conditions met - transferred to revenue	(2,243,000)	(1,712,000)
	98,000	

The purpose of the grant is to promote and support reforms in financial management by building capacity in municipalities to implement the Municipal Finance Management Act.

Expanded Public Works Program (EPWP)

Balance unspent at beginning of year	116	-
Current-year receipts	1,000,000	1,000,000
Conditions met - transferred to revenue	(886,816)	(999,884)
	113,300	116

The purpose of the grant is to incentivise municipalities to expand work creation efforts through the use of labour intensive delivery methods in the identified focus areas, in compliance with EPWP guidelines.

Integrated National Electrification Programme

Balance unspent at beginning of year	818,940	-
Current-year receipts	5,000,000	2,000,000
Conditions met - transferred to revenue	(5,817,908)	(1,181,060)
	1,032	818,940

Conditions still to be met - remains a liability and included under Unspent Conditional Grants.

Municipal Water Infrastructure Grant (MWIG)

Balance unspent at beginning of year	-	3,723,961
Conditions met - transferred to revenue	-	(3,723,961)
	-	-

The purpose of the grant is to facilitate the planning, acceleration and implementation of various projects that will ensure availability of water to the community.

Rural Housing Grant

Balance unspent at beginning of year	-	1,672,243
Conditions met - transferred to revenue	-	(1,672,243)
	-	-

The municipality is the implementing agent for COGHSTA and therefore does not include the amount received and spent on the Rural Housing Grant in its revenue and expenditure. The unspent amount remains as a liability (see note 17).

The purpose of this grant is to facilitate development of rural housing.

Ga Segonyana Local Municipality

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Notes to the Annual Financial Statements

	2018 R	2017 R
26. Government grants and subsidies realised (continued)		
Regional Bulk Infrastructure Grant (RBIG)		
Balance unspent at beginning of year	4,522,184	-
Current-year receipts	-	12,167,149
Converted to loan (Unapproved roll over) [1]	(4,500,000)	(7,644,965)
	22,184	4,522,184

Conditions still to be met - remain liabilities and are included under Unspent conditional grants.

[1] The rollover was not approved by National Treasury. The unapproved roll over was converted to a loan from National Treasury, the repayments were made from withholding of equitable share in three equal instalments of R4 266 666.67 and the last instalment was deducted in July 2018.

The purpose of the grant is to facilitate the planning, acceleration and implementation of various projects that will ensure availability of water to the community.

ACIP Water Grant

Balance unspent at beginning of year	261,070	261,070
Conditions met - transferred to revenue	(252,168)	-
	8,902	261,070

Conditions still to be met - remains a liability and included under Unspent Conditional Grants.

The purpose of the grant is to facilitate the planning, acceleration and implementation of various projects that will ensure availability of water to the community.

Allocations in kind

Rural Household Infrastructure Grant	10,300,000	5,000,000
Integrated National Electrification Programme (Eskom)	98,362,000	68,611,000
Municipal System Infrastructure Grant	787,000	-
	109,449,000	73,611,000

The following amounts were allocations in kind as per DORA Bill 5 of 2014. An allocation in kind is money allocated for spending by a national department on behalf of a province, local government or a municipality. National Treasury allocated funds to Gasegonyana area to build infrastructure. The municipality does not have control over the infrastructure. The donated income and/or assets thereof are not included in the municipality's Statement of Financial Position and Statement of Financial Performance.

Rural Housing Infrastructure Development

Balance unspent at beginning of year	70	70
Conditions met - transferred to revenue	(70)	-
	-	70

The purpose of this grant is to provide houses for the rural communities.

Ga Segonyana Local Municipality

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Notes to the Annual Financial Statements

	2018 R	2017 R
26. Government grants and subsidies realised (continued)		
Water Services Infrastructure Grant (WSIG)		
Balance unspent at beginning of year	3,950,280	3,950,280
Converted to loan (Unapproved roll over) [1]	(3,500,003)	-
Current-year receipts	35,000,000	-
Conditions met - transferred to revenue	(33,896,126)	-
	1,554,151	3,950,280
[1] The rollover was not approved by National Treasury. The unapproved roll over was converted to a loan from National Treasury, the repayments were made from withholding of equitable share in three equal instalments of R4 266 666.67 and the last instalment was deducted in July 2018.		
The purpose of the grant is to facilitate the planning, acceleration and implementation of various projects that will ensure availability of water to the community.		
27. Public contributions and donations		
Public donations	2,789,054	699,022
28. Employee related costs		
Basic	68,709,942	63,475,459
Bonus	5,015,192	4,456,876
Medical aid - company contributions	5,936,443	4,812,601
UIF	597,361	521,086
Leave pay provision charge	5,408,058	-
Bonus Provision	2,526,434	791,909
Employee benefit obligations	1,817,959	1,748,584
SETA	-	864,065
Defined contribution plans	9,998,368	9,877,690
Travel, motor car, accommodation, subsistence and other allowances	2,597,669	2,807,046
Overtime payments	7,882,709	5,269,621
Long-service awards	216,886	98,921
Acting allowances	987,454	1,133,323
Transport allowance (bus coupons)	243,944	-
Housing benefits and allowances	2,961,132	2,793,106
Industrial Council Contributions	-	27,848
Standby Allowance	1,763,137	570,619
Telephone Allowance	333,075	733,118
Group Insurance	1,817,436	1,689,539
Other Allowances	833,996	865,313
Termination benefits	-	1,333,489
	119,647,195	103,870,213

Ga Segonyana Local Municipality

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Notes to the Annual Financial Statements

	2018 R	2017 R
28. Employee related costs (continued)		
Remuneration of Municipal Manager		
Remuneration of Municipal Manager: E Ntefang (1 July 2017 - 30 September 2017)		
Annual remuneration	269,378	1,192,660
Car allowance	40,500	162,000
Contributions to UIF	892	1,785
	310,770	1,356,445
Remuneration of Municipal Manager: M Tsatsimpe		
Annual remuneration	878,491	-
Car allowance	125,388	-
Contributions to UIF	2,676	-
Other contributions	65,939	-
	1,072,494	-
Remuneration of Chief Financial Officer		
Remuneration of Chief Financial Officer : Kagiso Noke		
Annual Remuneration	897,483	74,529
Car Allowance	180,000	15,000
Contribution to UIF	3,569	149
Other contributions	73,204	873
	1,154,256	90,551
Remuneration of Chief Financial Officer : Tshegofatso Jarvis		
Acting Allowance	-	266,582
Remuneration of Chief Financial Officer : Tafita Sehloho		
Acting Allowance	40,158	319,898
Remuneration of the Director: Community Services - P Sampson		
Annual Remuneration	989,543	809,097
Car Allowance	90,000	90,000
Acting allowance (Municipal Manager)	11,601	6,398
Contributions to UIF, Medical and Pension Funds	3,569	-
Other contributions	74,075	186,399
	1,168,788	1,091,894

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Notes to the Annual Financial Statements

	2018 R	2017 R
28. Employee related costs (continued)		
Remuneration of Director: Corporate Support Services - M Tsatsimpe		
Annual Remuneration	430,561	976,324
Car Allowance	41,796	167,184
Acting allowance (Municipal Manager)	15,996	122,308
Contributions to UIF	892	1,785
	489,245	1,267,601
Remuneration of the Director: Corporate Support Services - Lencoe		
Acting allowance	339,775	-
Remuneration of the Director: Corporate Support Services - R Pule		
Annual Remuneration	171,665	-
Remuneration of the Director: Technical Services - H Smit		
Annual Remuneration	1,004,566	1,035,027
Car Allowance	75,500	48,000
Acting allowance (Municipal Manager)	38,389	54,385
Contributions to UIF	3,569	1,785
Other contributions	73,607	-
	1,195,631	1,139,197
29. Remuneration of councillors		
Mayor	792,541	538,210
Councillors	7,727,908	6,649,363
Speaker	841,168	627,724
	9,361,617	7,815,297
In-kind benefits		
The Mayor and Speaker are both full-time councillors of the municipality. Each is provided with an office and secretarial support at the cost of the Council.		
The Mayor and Speaker each have the use of separate Council owned vehicles and are provided with a driver for official duties.		
30. Depreciation and amortisation		
Plant and machinery	276,209	373,492
Furniture and fixtures	341,229	2,428,586
Motor vehicles	909,957	972,303
Office equipment	2,415,814	493,419
Infrastructure	46,340,757	48,136,453
Community	2,887,645	2,811,598
Other property, plant and equipment	16,014	26,081
Intangible assets	304,386	272,612
	53,492,011	55,514,544

Each part of an item of property, plant and equipment with a cost that is significant in relation to the total costs of the item has been depreciated separately.

Ga Segonyana Local Municipality

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Notes to the Annual Financial Statements

	2018 R	2017 R
31. Impairment of assets		
Impairments		
Property, plant and equipment	3,688,386	16,541,727
32. Finance costs		
Employee benefit obligations	2,255,539	2,175,341
Interest on provision for rehabilitation of land	8,021,075	588,056
Non-current borrowings	1,555,432	-
Trade and other payables	5,870,073	-
Finance leases	5,275,316	-
	22,977,435	2,763,397
33. Debt impairment - Gain/(loss)		
Contributions to debt impairment	(20,144,431)	19,147,662
34. Debtors write-off		
Fines debtors written-off	8,101,654	-
Debtors written-off	599,920	-
	8,701,574	-
35. Repairs and maintenance		
Repairs and maintenance - deductible	14,152,378	18,697,311
36. Bulk purchases		
Electricity	73,864,344	74,468,551
Water	25,223,601	21,683,679
	99,087,945	96,152,230
The municipality appointed Sedibeng to administer the production of water. Water bulk purchases are included in general expenses due to the nature of the municipality's contract with Sedibeng.		
37. Contracted services		
Specialist Services	5,498,192	2,813,488
Security services	5,942,810	5,608,462
	11,441,002	8,421,950

Ga Segonyana Local Municipality

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Notes to the Annual Financial Statements

	2018 R	2017 R
38. General expenses		
Advertising	146,415	79,249
Auditors remuneration	5,783,354	6,475,593
Bank charges	939,497	1,146,254
Cleaning	285,415	82,458
Computer expenses	2,055,346	225,419
Consulting and professional fees	22,558,575	13,640,928
VIP toilets	7,455,657	14,700,784
Entertainment	179,870	234,693
Flowers	-	400
Hire	1,063,964	2,066,610
Insurance	1,966,415	8,440,375
Community development and training	-	2,520,964
IT expenses	8,745	-
Skills development	950,814	-
Magazines, books and periodicals	-	58,589
Fuel and oil	2,447,092	-
Postage and courier	323,514	515,545
Printing and stationery	168,574	235,928
Protective clothing	69,985	-
Repairs and maintenance	14,152,378	18,697,311
Royalties and license fees	-	51,423
Subscriptions and membership fees	243,223	1,512,159
Telephone and fax	239,927	418,030
Training	385,364	117,091
Travel - local	2,566,787	1,564,998
Electricity	2,190,139	1,425,781
Grant funded expenditure	-	187,608
Cost of land sold	3,683,500	2,792,332
Town planning and rezoning	-	701,923
Traffic Services	-	2,008,580
Project management costs	-	1,074,750
Grants & subsidies paid	-	337,725
RDP Houses	-	4,018,348
Water quality management expenses	115,180	236,351
Chemicals	-	32,629
Convention bureau	-	96,009
Sundry expenses	2,308,091	4,190,996
	72,287,821	89,887,833

Ga Segonyana Local Municipality

Annual Financial Statements for the year ended 30 June 2018

Notes to the Annual Financial Statements

	2018 R	2017 R
39. Cash generated from operations		
Surplus	53,697,016	33,025,007
Adjustments for:		
Depreciation and amortisation	53,492,011	55,514,544
Gain on sale of assets and liabilities	-	920,923
Impairment deficit	3,688,386	16,541,727
Debt impairment	(20,144,431)	11,507,154
Movements in retirement benefit assets and liabilities	2,147,456	690,949
Movements in provisions	8,021,120	(4,990,582)
Impairment reversal	(176,751)	-
Transfers	393,070	-
Opening balance adjustment	(2,811,867)	14,033,783
Changes in working capital:		
Inventories	1,663,376	(6,818,429)
Consumer debtors	(5,861,234)	(14,718,584)
Other receivables from non-exchange transactions	1,900,222	(12,468,498)
Payables from exchange transactions	3,721,221	17,630,226
VAT	(1,880,315)	(15,309,553)
Unspent conditional grants and receipts	(16,792,997)	9,581,348
Consumer deposits	1,131,880	374,692
	82,188,163	105,514,707

40. Commitments

Authorised capital expenditure

Already contracted for but not provided for

• Property, plant and equipment	13,025,262	21,859,107
---------------------------------	------------	------------

Total capital commitments

Already contracted for but not provided for	13,025,262	21,859,107
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Total commitments

Total commitments

Authorised capital expenditure	13,025,262	21,859,107
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This committed expenditure relates to plant and equipment and will be financed by unspent grants rolled over as per conditions of Division Revenue Act as well as accumulated surplus.

Ga Segonyana Local Municipality

Annual Financial Statements for the year ended 30 June 2018

Notes to the Annual Financial Statements

	2018 R	2017 R
41. Contingent Liabilities		
The municipality had the litigation cases that could result in the following contingent liabilities being payable as at year end:		
Sullivan Attorneys	150,000	150,000
Conveyancing and registration of property case brought against the municipality. The case has been ruled in the Municipality's favour.		
Van Rooyen	250,000	250,000
This is a labour related issue where the municipality applied for a review of an arbitration by SALBGC which awarded Van Rooyen a payment of R250 000. The municipality is challenging the award. The outcome of the application for review is unknown.		
Edward Ntefang	65,000	65,000
Legal opinion (Monyela M L)	28,044	28,044
CCMA awarded Monyela M.L. a payment of R28 044 and the municipality is challenging the decision. The municipality has applied for a review of the arbitration. The timing of cash outflows from the municipality is dependent on the outcome of the case which is unknown.		
Review: IMATU obo ML Monyela	150,000	150,000
This is a labour related issue in which IMATU took the municipality to court with regard to ML Monyela. The timing of cash outflows from the municipality is dependent on the outcome of the case which is unknown		
OJM Engineers	250,000	250,000
Contract appointment of a tender. The case has been ruled in the Municipality's favour.		
Public Liability claim: BNH829NC/CDX376NC	20,357	20,357
Insurance claim municipal vehicle in accident with a third party. The timing of cash outflows from the municipality is dependent on the outcome of the insurance claim which is unknown.		
Property loss: Transformer Golf Club	55,461	-
Insurance claim. The timing of cash outflows from the municipality is dependent on the outcome of the insurance claim which is unknown		
Public Liability: J Keeloni - Bodulong	-	3,750
Insurance. The timing of cash outflows from the municipality is dependent on the outcome of the insurance claim which is unknown		
Public Liability: JJ Erasmus	37,068	37,068
Insurance claim. The timing of cash outflows from the municipality is dependent on the outcome of the insurance claim which is unknown		
Public Liability: APC Botes	12,651	12,651
Insurance claim. The timing of cash outflows from the municipality is dependent on the outcome of the insurance claim which is unknown		
Public Liability: PB Van der Merwe	14,750	14,750
Insurance claim on municipality due to financial loss as a result of bad advice to replace water pipes on a stand from the municipality. The timing of cash outflows from the municipality is dependent on the outcome of the insurance claim which is unknown		
Public Liability: BVJ098NC	-	12,281
Insurance claim vehicle damaged by tree in the parking area. The timing of cash outflows from the municipality is dependent on the outcome of the insurance claim which is unknown		
Public Liability: BYN212NC	10,064	10,064
Insurance claim municipal vehicle in accident with a third party. The timing of cash outflows from the municipality is dependent on the outcome of the insurance claim which is unknown		
Public Liability: GS Kies	-	36,541
Insurance claim. The timing of cash outflows from the municipality is dependent on the outcome of the insurance claim which is unknown		
Public Liability: Damage tyre at Testing Station	-	3,570
Insurance claim due to damage on tyres at the municipal testing station due to faulty brake rollers. The timing of cash outflows from the municipality is dependent on the outcome of the insurance claim which is unknown		

Ga Segonyana Local Municipality

Annual Financial Statements for the year ended 30 June 2018

Notes to the Annual Financial Statements

	2018 R	2017 R
41. Contingent Liabilities (continued)		
Wrenchville illegal occupants portion ERF 1 (ERF 5702)	800,000	800,000
This is as a result of a civil matter involving the eviction of illegal occupants. The illegal occupants have instituted a legal action against the municipality and the outcome of the legal action is unknown.		
Public liability claim : W Markram	17,853	17,853
Insurance		
Public liability: BYG807NC	-	40,224
Insurance claim municipal vehicle in accident with a third party. The timing of cash outflows from the municipality is dependent on the outcome of the insurance claim which is unknown		
Public Liability: Damage to wall- Kerk Street	-	10,755
Insurance damage to wall. The timing of cash outflows from the municipality is dependent on the outcome of the insurance claim which is unknown		
Public Liability: Injury V Maruping	-	1,075
Insurance injury on the job. The timing of cash outflows from the municipality is dependent on the outcome of the insurance claim which is unknown		
Public liability: CMJ695NC	3,418	3,418
Insurance claim municipal vehicle in accident with a third party. The timing of cash outflows from the municipality is dependent on the outcome of the insurance claim which is unknown		
Public Liability: CMM691NC	-	6,800
Insurance claim municipal vehicle in accident with a third party. The timing of cash outflows from the municipality is dependent on the outcome of the insurance claim which is unknown		
Public liability: BYG807NC	40,224	-
Insurance claim municipal vehicle in accident with a third party. The timing of cash outflows from the municipality is dependent on the outcome of the insurance claim which is unknown		
Public liability: CGK133NC	51,796	-
Insurance claim municipal vehicle in accident with a third party. The timing of cash outflows from the municipality is dependent on the outcome of the insurance claim which is unknown		
Public Liability: CRV841NC	10,460	-
Insurance claim municipal vehicle in accident with a third party. The timing of cash outflows from the municipality is dependent on the outcome of the insurance claim which is unknown		
Public Liability: Damage to tyre due to pothole	3,669	-
Insurance claim against the municipality due to tyre damage caused by potholes. The timing of cash outflows from the municipality is dependent on the outcome of the insurance claim which is unknown		
Public liability: Mr Boyise	54,031	-
Terms and conditions		
Public Liability: CPG617NC	16,345	-
Insurance claim municipal vehicle in accident with a third party. The timing of cash outflows from the municipality is dependent on the outcome of the insurance claim which is unknown		
Public Liability: CJZ611MZ	27,560	-
Insurance claim municipal vehicle in accident with a third party. The timing of cash outflows from the municipality is dependent on the outcome of the insurance claim which is unknown		
	2,068,751	1,924,201

Ga Segonyana Local Municipality

Annual Financial Statements for the year ended 30 June 2018

Notes to the Annual Financial Statements

42. Related parties

Relationships

Councillor K.B Madikiza

Councillor N.G Thupaemang

Councillor N.S Bloem

Councillor E.B Modise

Councillor G.C Assegaaï

Municipal Manager - G.E Ntefang

Municipal Manager - M.M. Tsatsimpe

Community Services Director - P.J Sampson

Technical Director - H. Smit

Chief Financial Officer: Kagiso Noke

Councillor: W.A.S Aucamp

Councillor: G.N Mntuyedwa

Councillor: K.B Selepe

Councillor: N.G Ngesi

Councillor: G.N Masegela

Councillor: O.D Mathibe

Councillor: M.G Reetsang

Councillor: M.P Galeboe

Batlhilos Sound Hire, Tlotlanang Catering & Bomme-sejo Services and Supply Co-operative Limited, By Fire Business Enterprise

Bafumahadi khumo Enterprise and Projects - Director
Mmeotshwara Thipa Ka Ha Bogaleng Primary Co-operative Limited - Director

Ditswammung Mineral Resources Consortium - Director

Bomme-sejo Services and Supply Co-operative Limited

Bomme-sejo Services and Supply Co-operative Limited

Bomme-sejo Services and Supply Co-operative Limited - Director

Gadikgadi - Director

Self-Propelled Trading and Projects - Director

Gasegonyana Mining Investment - Incorporator

Mediro Peo Holdings - Director

Motshingo Investment - Member

Blue Disa Trading 189 - Member

Bonako Panelbeater - Member

Gabatu Construction Supply Management and Community Services Providers - Member

Seven Mile Trading 167 - Member

Kurara FM Radio Station - Director

Mimoisa Business Solutions - Director

Local Economic Development Agency of Mafikeng - Director

Mafikeng Industry Development Zone - Director

KAYN Projects - Director

Tau Aggregate - Director

Spectra Mining Solutions - Director

Masakeng A Dipodi Primary Co-operative Limited - Director

Batlhilos Sound Hire - Director

Tlotlanang Catering - Director

Bomme-Sejo Services and Supply Co-operative Limited - Director

Mighty Metals - Director

Gamotinye Investment Holdings - Directors

Ditukus Project - Director

Batharo Le Bathping Mining Solutions - Director

Boka Resources - Director

Nomisa Enterprise - Director

Letlotlo Lame Trading and Projects - Director

PKS Trading - Director

Ga Segonyana Local Municipality

Annual Financial Statements for the year ended 30 June 2018

Notes to the Annual Financial Statements

	2018 R	2017 R		
42. Related parties (continued)				
Related party transactions				
Compensation of related parties				
R.M. Meyers (Wife to Councillor T.E. Meyers)	295,231	241,277		
B. Thankane (Cousin to Councillor P.Q Mogatle)	-	132,068		
N. Rayn (Husband to Councillor S.M. Rayn)	-	132,068		
G. Sibi (Daughter to Councillor N.G Thupaeemang)	327,179	236,450		
K.V. Makoke (Brother to Councillor L.N. Makoke)	388,157	-		
D. Baepi (Brother to Councillor L.C. Moseki)	444,976	331,175		
K.M. Modise (Daughter to Councillor B.E. Modise)	214,669	-		
Related party transactions during the year				
Kurara FM (advertisement)	-	3,700		
Mimoisa Business Connection	-	285,000		
Related party transactions				
Related party transactions - Management				
Pule RC - Acting Director Corporate Services	2018 Transactions for the year 12,260	2018 Balance as at year end 380	2017 Transactions for the year 3,527	2017 Balance as at year end (6,001)
Smit H.J - Director Technical Services	6,930	-	5,733	482
Tsatsimpe MM - Municipal Manager	23,174	-	11,020	1,346
	42,364	380	20,280	(4,173)

43. Risk management

Financial risk management

Liquidity risk

The municipality's risk to liquidity is a result of the funds available to cover future commitments. The municipality manages liquidity risk through an ongoing review of future commitments and credit facilities.

Cash flow forecasts are prepared and adequate utilised borrowing facilities are monitored.

	Less than 1 year	Between 1 and 2 years	Between 2 and 5 years	Over 5 years
At 30 June 2018				
Trade and other payables	125,812,670	-	-	-
Finance lease obligation	4,773,650	7,442,049	-	-
Other financial liabilities	7,451,010	13,158,864	-	-
At 30 June 2017				
Trade and other payables	121,946,728	-	-	-
Finance lease obligation	1,547,114	2,819,011	-	-
Other financial liabilities	6,666,473	14,667,776	-	-

Ga Segonyana Local Municipality

Annual Financial Statements for the year ended 30 June 2018

Notes to the Annual Financial Statements

43. Risk management (continued)

Credit risk

Credit risk consists mainly of cash deposits, cash equivalents, and accounts receivable. The municipality only deposits cash with major banks with high quality credit standing and limits exposure to any one counter-party. Trade receivables comprise a widespread customer base. Management evaluates credit risk relating to these customers on an ongoing basis. If customers are independently rated, these ratings are used. Otherwise, if there is no independent rating, risk control assesses the credit quality of the group of customers, taking into account their financial position, past experience and other factors

Credit risk arises from cash deposits, cash equivalents, and trade debtors. The municipality only deposits cash with major banks with high quality credit standing and limits exposure to any one counter-party.

Financial assets exposed to credit risk at year end were as follows:

Financial instrument

Receivables from exchange transactions	30 June 2018	30 June 2017
Receivables from non exchange	46,119,454	20,113,789
Cash and cash equivalents and bank overdraft	19,738,879	21,639,101
	11,688,188	990,123

Market risk

Interest rate risk

The municipality's interest rate risk arises from long-term borrowings. Borrowings issued at variable rates expose the municipality to cash flow interest rate risk. Borrowings issued at fixed rates expose the municipality to fair value interest rate risk.

The municipality analyses its interest rate exposure on a dynamic basis. Various scenarios are simulated taking into consideration refinancing, renewal of existing positions and alternative financing. Based on these scenarios, the municipality calculates the impact on surplus and deficit of a defined interest rate shift. For each simulation, the same interest rate shift is used for all currencies.

44. Going concern

The Annual financial statements have been prepared on the basis of accounting policies applicable to a going concern. This basis presumes that the municipality will continue to receive grants from National and Provincial Governments as well as continue to levy rates and charge for services provided to consumers. The proceeds are presumed to be available to finance future operations and that the realisation of assets and settlement of liabilities, contingent obligations and commitments will occur in the ordinary course of business.

The following indicators have a negative outlook on the going concern of the municipality:

- Creditors days in 2018 are 251 and in 2017 are 228

- Debtors days in 2018 are 115 and in 2017 are 73

Non-compliance (30 days) - The municipality is currently not paying all their creditors within the accepted 30 days. This also resulted in fruitless and wasteful expenditure due to interest on overdue creditors account:

The municipality owns Eskom R53 864 770 and Sedibeng Water R15 559 394 at year end.

Despite the above negative indicators, the municipality is a going concern because of the following:

It is a state entity set up by the Constitution of the Republic of South Africa to provide basic services to the community and is also funded by the state for that purpose. Failure to provide these services will prompt National Government intervention to ensure it stays functional and able to deliver basic services and consequently compliance with the Constitution

Under the DORA Act (Division of Revenue Bill - Bill Published In Government Gazette No. 40610 of 10 February 2017) the municipality has been allocated the following funds for the years 2017/18 to 2019/20.

Ga Segonyana Local Municipality

Annual Financial Statements for the year ended 30 June 2018

Notes to the Annual Financial Statements

44. Going concern (continued)

	2017/18	2018/19	2019/20	Total
Equitable Share	129,580,000	141,621,000	152,362,000	423,563,000
Other	196,505,000	196,505,000	196,505,000	589,515,000
	326,085,000	338,126,000	348,867,000	1,013,078,000

There is no indication of a possibility of default by the government in paying grants under the act. This is also corroborated by experience where National Treasury has met its obligations year on year and has therefore created a constructive obligation. Part of the grants tabled above has already been paid in July 2018.

In addition, the municipality collects revenue for services rendered and this will augment their cash flows in subsequent years

	2018	2017
	R	R

45. Unauthorised expenditure

Unauthorised expenditure	289,513,086	203,758,772
Current year	41,225,363	85,754,314
Written-off	(289,513,086)	-
	41,225,363	289,513,086

46. Fruitless and wasteful expenditure

Opening balance(2018, 2017-as Previously reported)	3,953,575	1,306,643
Fruitless and wasteful expenditure	5,188,914	2,646,932
Written off	(7,767,061)	-
	1,375,428	3,953,575

The expenditure is caused by overdue account of Eskom, Telkom as well as penalties from SARS for late payment of taxes.

Ga Segonyana Local Municipality

Annual Financial Statements for the year ended 30 June 2018

Notes to the Annual Financial Statements

	2018 R	2017 R
47. Irregular expenditure		
Opening balance previously reported	410,410,352	247,387,887
Add: Irregular Expenditure - current year	9,690,773	28,004,423
Add: Irregular Expenditure - current year identified during the audit	110,813,951	97,548,749
Add: Irregular Expenditure - prior years identified during the audit	-	37,469,293
Less: Written-off - prior years	(358,297,542)	-
Less: Written-off - current year	(5,360,436)	-
	167,257,098	410,410,352

Further instances of Irregular Expenditure that might have resulted from non-compliance with SCM processes are under investigation to determine the full extent of the amount

The amount disclosed for irregular expenditure for the reported financial years is mainly as a result of the following reasons:

- Goods and services with a transaction value of below R200 000 were procured without obtaining the required price quotations as required by SCM regulation 17(a) and (c). Some expenditures were paid using pro-forma invoices.
- Bid specifications not drafted by bid specification committee prior to 2015/2016, however Bid specification committee was appointed during 2015/16.
- The amounts are however under investigation by Municipal Public Accounts Committee as a result at the reporting date it was not clear about the write-off or recovery.
- Bids adjudicated by the Bid Adjudication Committee not compliant with SCM regulation 29 (2).

48. Additional disclosure in terms of Municipal Finance Management Act

Contributions to organised local government

Current year subscription / fee	-	28,401
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Bulk Electricity and water Losses in terms of section 125 (2)(d)(i) of the MFMA

30 June 2018	Lost units	Tariff	Value
Unaccounted electricity losses	17 245 047	0,95	16 382 794,3

30 June 2017	Lost units	Tariff	Value
Unaccounted electricity losses	18 166 042	0,95	17 257 739,9

Volume in KWH/year	30 June 2018	30 June 2017
System Input Volume	78 600 284	78 600 284
Billed Consumption	61 355 237	60 484 242
Distribution Loss	17 245 047	18 116 042
Percentage Distribution Loss (%)	21,94%	23,05%

30 June 2018	Lost units	Tariff	Value
Unaccounted for water losses	3 935 217	4,32	17 000 137

30 June 2017	Lost units	Tariff	Value
Unaccounted for water losses	3 310 611	4,32	143 01 840

Volume in KI/year	30 June 2018	30 June 2017
System Input Volume	5 796 468	5 075 302
Billed Consumption	1 861 251	1 764 691
Distribution Loss	3 935 217	3 301 611
Percentage Distribution Loss (%)	68,00%	65,23%

Included in both water and electricity losses is the municipal own consumption at various municipal facilities.

Ga Segonyana Local Municipality

Annual Financial Statements for the year ended 30 June 2018

Notes to the Annual Financial Statements

	2018 R	2017 R	
48. Additional disclosure in terms of Municipal Finance Management Act (continued)			
SDL			
Current year subscription / fee	997,469	920,551	
PAYE and UIF			
Current year subscription / fee	15,856,791	13,956,446	
Amount paid - current year	(15,856,791)	(13,956,446)	
	-	-	
Pension and Medical Aid Deductions			
Current year subscription / fee	25,338,121	23,620,993	
Amount paid - current year	(25,338,121)	(23,620,993)	
	-	-	
VAT			
VAT output payables and VAT input receivables are shown in note 5.			
All VAT returns have been submitted by the due date throughout the year.			
Councillors' arrear consumer accounts			
The following Councillors had arrear accounts outstanding for more than 90 days at 30 June 2018:			
30 June 2018	Outstanding less than 90 days R	Outstanding more than 90 days R	Total R
D.T Mpata	403	11,851	12,254
E.B Modise	46	1,440	1,486
G.C Assegaaï	100	3,199	3,299
L.R Nelson	2,120	-	2,120
G.N. Mntuyedwa	-	11	11
	2,669	16,501	19,170
30 June 2017	Outstanding less than 90 days R	Outstanding more than 90 days R	Total R
B.A Eiman	1,101	-	1,101
D.T Mpata	92	5,099	5,191
E.B Modise	17	1,106	1,123
G.C Assegaaï	37	2,241	2,278
L.R Nelson	154	214	368
	1,401	8,660	10,061
49. Auditors' remuneration			
Fees	5,783,354	6,475,593	

Ga Segonyana Local Municipality

Annual Financial Statements for the year ended 30 June 2018

Notes to the Annual Financial Statements

50. Financial instruments disclosure

Categories of financial instruments

2018

Financial assets

	At fair value	At amortised cost	Total
Trade and other receivables from exchange transactions	-	46,119,454	46,119,454
Receivables from non-exchange transactions	-	19,738,879	19,738,879
Cash and cash equivalents	11,688,188	-	11,688,188
VAT	-	17,189,868	17,189,868
	11,688,188	83,048,201	94,736,389

Financial liabilities

	At amortised cost	Total
Other financial liabilities	20,609,874	20,609,874
Trade and other payables from exchange transactions	125,667,955	125,667,955
Finance lease obligation	12,215,699	12,215,699
Consumer deposits	5,334,319	5,334,319
	163,827,847	163,827,847

2017

Financial assets

	At fair value	At amortised cost	Total
Trade and other receivables from exchange transactions	-	17,726,284	17,726,284
Receivables from non-exchange transactions	-	24,932,391	24,932,391
Cash and cash equivalents	990,123	-	990,123
VAT	-	15,309,553	15,309,553
	990,123	57,968,228	58,958,351

Financial liabilities

	At amortised cost	Total
Other financial liabilities	21,334,249	21,334,249
Trade and other payables from exchange transactions	124,675,917	124,675,917
Finance lease obligation	4,416,125	4,416,125
Consumer deposits	4,202,439	4,202,439
	154,628,730	154,628,730

Credit quality of other assets that are neither past due nor impaired

The municipality evaluates the credit risk of all its customers on an on-going basis taking into account the financial position, past payment history and also considers the municipality's internal control systems on debt collection and credit risk management.

Financial assets that is past due but not impaired

The municipality limits its counterparty exposures from its investment operations (financial assets that are neither past due nor impaired) by only dealing with well-established financial institutions of high credit standing."

Ga Segonyana Local Municipality

Annual Financial Statements for the year ended 30 June 2018

Notes to the Annual Financial Statements

Financial instruments disclosure (continued)

Counterparty and Location

Receivables from non-exchange transactions

1 month past due	7,034,925	471,335
2 months past due	3,060,376	398,209
3 months past due	2,071,500	18,438,334
Receivables from exchange transactions		
1 month past due	7,734,125	10,232,771
2 months past due	3,225,856	4,705,949
3 months past due	2,364,123	2,314,617
	25,490,905	36,561,215

Except as detailed in the following table, the carrying amount of financial assets recorded in the Annual Financial Statements, which is net of impairment losses, represents the municipality's maximum exposure to credit risk without taking account of the value of any collateral obtained:

The maximum credit and interest risk exposure in respect of the relevant financial instruments is as follows:

Motor vehicle and housing loans	61,070	88,337
Other receivables from non-exchange revenue	16,959	98,313
Consumer debtors - non-exchange transactions	18,422,620	9,411,303
Cash and cash equivalents	11,688,188	990,123
Consumer debtors - exchange transactions	58,674,983	42,304,111
Sundry debtors	23,729,070	26,567,562
Maximum Credit and Interest Risk Exposure	112,592,890	79,459,749

Ga Segonyana Local Municipality

Annual Financial Statements for the year ended 30 June 2018

Notes to the Annual Financial Statements

51. Deviations

Supply chain management regulations

In terms of section 36 of the Municipal Supply Chain Management Regulations any deviation from the Supply Chain Management Policy needs to be approved/condoned by the Accounting Officer and noted by Council. The expenses incurred as listed hereunder have been approved by the Accounting Officer and have noted by Council. Furthermore, management did not note any material non-compliance with the Municipal Finance Management Act.

Reason	Month	Supplier	Amount	Description
Installation of a Server for mSCOA compliance purposes. The advert was placed using Reg 18, where bids were not received, goods and services were sourced directly due to the urgency of the needs.	17 July 2017	ITNA (Pty) Ltd	69,212	Supply, Delivery and Setup of a Server
Training of caseware can only be provided by the supplier of the software. The authorisation letter to this effect is available for inspection.	28 August 2017	Adapt IT (Pty) Ltd	71,741	Caseware Training
Only Xerox can issue these goods as they have the sole rights to supply them.	15 August 2017	Rosburg Industrial Enterprise	5,996	Toner
Only CIGFARO can provide this sumit/ Conference. Attended by delegates from BTO office, Office of MM, Mayor, Speaker.	23 August 2017	CIGFARO	36,350	CIGFARO Conference
We are unable to obtain three quotations from various service providers due to the scarce nature of this programme. Efforts to source quotes within the province were fruitless as there are no other accredited providers hence NTC was approached in Ventersdorp as they were the only providers with relevant accreditation.	29 August 2017	NTC Training Centre	51,800	Electrical Training
Supplier's Tax Status is Non Compliant, however the deceased body was already in the supplier's possession. The family had to be assisted with the coffin	21 September 2017	AMC Funerals	950	Supply of Burial Coffin
Sole Provider/ Trader Delegates had to attend the 18th Annual Library and Information Association of South Africa (LIASA) Conference and only LIASA can provide this conference	20 September 2017	LIASA	23,000	Conference Attendance
The service provider needed to find faults on the municipal electricity networks, on an emergency basis, where half of the town was without power, and the internal staff had no capacity to detect faults.	19 September 2017	Nandina Trading 551 CC t/a TRS	24,476	Repair and Maintenance on LMT HT Circuit Breaker
Sole Provider.Purchase of two licenses for Caseware software that was previously purchased. This software and accompanying licenses can only be purchased from Adapt IT as they are the developer and sole supplier of the products	30 October 2017	Adapt IT (Pty) Ltd	29,435	Caseware licenses
Supplier's Tax Status is Non Compliant, however the deceased body is already in their possession. The family had to be assisted with the coffin	05 October 2017	Rekathusa Funeral Parlour	950	Supply of Coffin
Supplier's Tax Status is Non Compliant, however the deceased body is already in their possession. The family had to be assisted with the coffin	05 October 2017	AMC Funerals	950	Supply of Coffin

Ga Segonyana Local Municipality

Annual Financial Statements for the year ended 30 June 2018

Notes to the Annual Financial Statements

51. Deviations (continued)

Execution of the court order, which was obtained by the service provider.	08 November 2017	Seleke Attorneys	145,100 Lega Fees
The supplier has to provide fuel on the municipal behalf, on a backup basis.	13 December 2017	Kuruman Landbou Diesnte (Bpk) Edms	29,986 Supply of diesel
Supplier's Tax Status is Non Compliant, however the deceased body is already in their possession. The family had to be assisted with the coffin	09 January 2018	Rekathusa Funeral Parlour	950 Supply of Coffin
Supplier's Tax Status is Non Compliant, however the deceased body is already in their possession. The family had to be assisted with the coffin	09 January 2018	Rekathusa Funeral Parlour	950 Supply of Coffin
The roller door and the braking machine rollers needed to be repaired urgently at the Traffic Department. As it is an emergency we were unable to obtain three quotations from various service providers. It is on this basis that the order had to be generated to avoid delay and to enable service delivery at the Traffic Department	17 January 2018	Workshop Electronics	32,183 Service and Calibrate of Vehicle Test Station Equipment
Strip and Quote: The supplier has to open the traffic lights channel controller to detect the fault and thereafter fix it.	26 January 2018	Teletronic	13,875 Repairs of Traffic Lights
We are unable to obtain three quotations from various service providers for the Learners Licence Material. Mindmuzik Media (Pty) Ltd is the Sole Provider of the Revised Learners Licence Material as prescribed by the Department of Transport	26 January 2018	Mindmuzik Media (Pty) Ltd	16,175 Learners Licence Material
Procurement was on a cash on delivery basis and this was the only service provider who could assist the municipality at that short notice.	22 February 2018	Pick N Pay	2,089 Catering Services
The service provider has to locate the faulty/ damaged (underground) first and thereafter repalce it with the new one. The motivation letter for this is available for inspection	06 March 2018	Nandina Trading 551 cc t/a TRS	38,523 Locate Cable Fault
The supplier has to strip the Compactor Truck and diagnose the fault and thereafter fix the faults. This truck had been involved in the accident earlier. The accident report is available for inspection	28 May 2018	Letshogo Engineering and Outsourcing	54,695 Strip and Quote
The sole supplier authorised to service the calibratoin machine. The calibration machine must be serviced, amongst the works to be caried out is supply of millibrakes software, load cell rewiring, lane 1 repairs, repair motor for brake tester.	09 May 2018	Workshop Electronics	61,035 Testing Station Machine Calibration
The service provider has to locate the faulty/ damaged (underground) first and thereafter repalce it with the new one. The motivation letter for this is available for inspection	03 May 2018	Fraqua 143 cc t/a The International Funeral society	1,900 Supply of a coffin

712,321

52. Prior period errors

During the year under review, the following errors were identified for prior year Annual Financial Statements:

The correction of the error(s) results in adjustments as follows:

Ga Segonyana Local Municipality

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Notes to the Annual Financial Statements

52. Prior period errors (continued)

Statement of financial position	As previously reported	Adjustments	Reclassifications	Restated	Reference
ASSETS					
Current Assets					
Inventories	53,048,213	2,419,800	-	55,468,013	[1]
Receivables from non-exchange transactions	24,932,391	(3,293,290)	-	21,639,101	[2]
VAT receivable	22,025,161	(6,715,608)	-	15,309,553	[3]
Receivables from exchange transactions	20,300,105	(186,316)	-	20,113,789	[14]
Cash and cash equivalents	990,123	-	-	990,123	
	121,295,993	(7,775,414)	-	113,520,579	
Non-Current Assets					
Investment property	6,961,100	(205,000)	-	6,756,100	[4]
Property, plant and equipment	1,179,367,256	55,413,180	-	1,234,780,436	[5]
Intangible assets	573,105	-	-	573,105	
Heritage assets	1,655,642	-	-	1,655,642	
	1,188,557,103	55,208,180	-	1,243,765,283	
	1,309,853,096	47,432,766	-	113,520,579	
LIABILITIES					
Current Liabilities					
Other financial liabilities	6,666,473	-	-	6,666,473	
Finance lease obligation	1,597,114	-	-	1,597,114	
Trade payables	5,062,302	-	90,185,688	95,247,990	[6]
Accruals	95,247,988	-	(95,247,988)	-	[6]
Retention monies	14,423,003	-	-	14,423,003	
Sale of stands	-	(2,729,183)	5,062,300	2,333,117	[7]
Other payables	2,136,667	(206,579)	-	1,930,088	[13]
Employee costs accrual	5,438,944	-	-	5,438,944	
Debtors with credit balances	-	206,579	-	206,579	[13]
Group Life Insurance	2,367,006	-	-	2,367,006	
Consumer deposits	4,202,439	-	-	4,202,439	
Employee benefit obligation	1,399,725	-	-	1,399,725	
Unspent conditional grants and receipts	18,492,566	-	-	18,492,566	
	157,034,227	(2,729,183)	-	154,305,044	
Non-Current Liabilities					
Other financial liabilities	14,667,776	-	-	14,667,776	
Finance lease obligation	2,819,011	-	-	2,819,011	
Employee benefit obligation	23,424,176	-	-	23,424,176	
Provisions	4,870,377	-	-	4,870,377	
	45,781,340	-	-		
TOTAL LIABILITIES	202,815,567	(2,729,183)	-	200,086,384	
NET ASSETS	1,107,037,529	47,350,065	-	1,154,387,594	
Reserves					
Revaluation reserve	14,835,415	-	-	14,835,415	
Accumulated surplus	1,092,202,114	47,350,065	-	1,139,552,179	[8]
	1,107,037,529	47,350,065	-	1,154,387,594	

Statement of Financial Performance	As previously reported	Adjustments	Reclassifications	Restated	Reference
REVENUE					
Revenue from exchange transactions					
Sale of stands	5,618,635	2,729,183	-	8,347,818	[7]
Service charges	122,759,546	(87,957)	-	122,671,589	[9]
Rental of facilities and equipment	1,926,041	-	-	1,926,041	
Interest received (trading)	5,901,682	-	-	5,901,682	
Licences and permits	5,050,505	-	-	5,050,505	
Other revenue	14,962,597	-	-	14,962,597	
Interest received (investments)	176,099	-	-	176,099	
	156,395,105	2,641,226	-	159,036,331	
Revenue from non-exchange transactions					
Property rates	36,250,313	398,710	-	36,649,023	[10]
Government grants and subsidies	226,228,557	-	-	226,228,557	
Public contributions and donations	699,022	-	-	699,022	
Fines, Penalties and Forfeits	9,739,846	-	-	9,739,846	
	272,917,738	398,710	-	273,316,448	
Expenditure					
Employee related costs	(103,870,213)	-	-	(103,870,213)	
Remuneration of councillors	(7,815,297)	-	-	(7,815,297)	
Depreciation and amortisation	(51,787,773)	(3,726,771)	-	(55,514,544)	
Impairment loss	(16,541,727)	-	-	(16,541,727)	
Finance costs	(2,763,397)	-	-	(2,763,397)	
Provisions	(15,370,191)	(3,777,471)	-	(19,147,662)	[11]
Repairs and maintenance	(18,697,311)	-	-	(18,697,311)	
Bulk purchases	(96,152,230)	-	-	(96,152,230)	
Contracted services	(8,421,950)	-	-	(8,421,950)	
General expenses	(71,190,522)	-	-	(71,190,522)	
	(392,610,611)	(7,504,242)	-	(400,114,853)	
Profit/(loss) on disposal	(920,923)	-	-	(920,923)	
Actuarial gains	1,720,891	-	-	1,720,891	
	38,423,123	-	-	32,237,926	
Other					
Irregular expenditure	275,392,390	135,017,962	-	-	410,410,352 [12]

- [1] Inventory was adjusted for by R2,419,800 for land after deeds search and verification of ownership and land use.
- [2] Receivables from non-exchange transactions was adjusted by R(3,293,290) which was a write-off of debtors done in the current year instead of prior year.
- [3] VAT was understated by R(6,715,608) and the error was adjusted after reviewing prior year VAT returns and SARS statements and adjustments done accordingly.
- [4] Investment property was adjusted by an amount of R(205,000) which was land incorrectly classified as investment property and has now been moved to Inventory.
- [5] Property, plant and equipment was adjusted for an overstatement of R55,413,180 related to prior year assets that were included in the Fixed asset register as a result of completeness issues identified during the physical verification exercise conducted.
- [6] Trade payables and accruals were adjusted by the same amount of R90,185,688. This was due to reclassification error.
- [7] Sale of stands of R(2,729,183) as these sales related to the 2016/2017 period and were moved from the 2017/2018 period.

Ga Segonyana Local Municipality

Annual Financial Statements for the year ended 30 June 2018

Notes to the Annual Financial Statements

52. Prior period errors (continued)

- [8] Accumulated surplus was adjusted by R47,350,065 due to other adjustments from various components of the financial statements.
- [9] Sale of stands was adjusted by R2,729,183 as these sales related to the 2016/2017 period and were moved from the 2017/2018 period.
- [10] Service charges were adjusted by R(87,957) due to restatement of prior year service charges which were recalculated.
- [11] Property rates were readjusted by R398,710 as the rates were recalculated and restated.
- [12] Provisions were adjusted by R(3,777,471) due to impairment which was recalculated for prior period and restated.
- [12] Irregular expenditure were restated by R- after reviewing prior year expenditure.
- [13] Disclosure of Debtors with credit balances previously not disclosed of R206,579.
- [14] Impairment of debtors was adjusted after recalculations to the value of R186,316.

53. Events after the reporting date

Investment property was subsequently revalued after year end in July 2018 in line with the municipality's policy of revaluing investment property every four years. The last revaluation was performed in 2014.

54. Change in estimate

Property, plant and equipment

The useful life of Landfill site was estimated in 2017 to be 17 years. In the current period management have revised their estimate to 10 years.

Landfill site

The estimated useful lives were reviewed at 30 June 2018. Adjustments to the useful lives affect the amount of provision for the current year and is expected to affect future periods as well. The adjustments are as follows:

Increase in Landfill site due to adjustments to useful lives of non-current provisions	8,021,075	-
Increase in Landfill Site Interest		
Interest as previously stated	485,090	-
Adjustment due to Change in Accounting Estimate	7,535,986	-
	8,021,076	-

55. Actual operating expenditure versus budgeted operating expenditure

Refer to Appendix A for the comparison of actual operating expenditure versus budgeted expenditure.

56. Other disclosures

VAT was increased from 14% to 15% effective from the 1st of April 2018.